

# **Indiana State Teachers' Retirement Fund 2006 Fiscal Operations Report**

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October 31, 2006

The Honorable Mitch Daniels  
Governor of the State of Indiana

The Indiana General Assembly

Dear Governor Daniels and Members of the General Assembly,

It is my pleasure to submit the 2006 Fiscal Operations Report on behalf of the Indiana State Teachers' Retirement Fund (TRF), in accordance with Indiana code 5-10.2-2-1. The Report contains statistical data, actuarial projections, financial statements, investment performance reports, benchmark data for investment and customer services, and TRF's 2006 Goals and Initiatives.

In fiscal year 2006 I am pleased to report that TRF made significant strides in improving its efficiency and effectiveness. In particular, TRF participated in the IOT consolidation efforts, moved its IPSI operations under IOT, contracted with the Indiana Commission on Public Records to complete our records imaging backlog, returned our payroll to the Auditor of the State from an outside contractor, conducted RFP's for vendors to compete for our legal, printing and investment consulting work, and maintained our less than 30 seconds average wait time in our call center with less than half the prior staffing level.

TRF also dramatically improved its customer service by offering summer retirement counseling sessions while at the same time maintaining our standard of providing retirement benefits the first month of retirement. In addition, we introduced state of the art, web-based functions for members to receive statements and newsletters, change investments options, beneficiaries and personal information, and for employers to report their quarterly wages and contributions. We also now have all new records imaged and indexed within 24 hours of receipt, allowing for immediate access of up-to-date information to our staff and members.

The composite rate of return for the Pension Stabilization Fund and employers' assets managed by TRF were an outstanding 11.43% in fiscal year 2006, far exceeding our actuarial investment assumption of 7.5%. Particularly noteworthy were the 28.16% rate of return in international equities and the 23.11% rate of return in private equity.

We are honored to serve the active and retired teachers of Indiana and will continue to seek excellence in all we do.

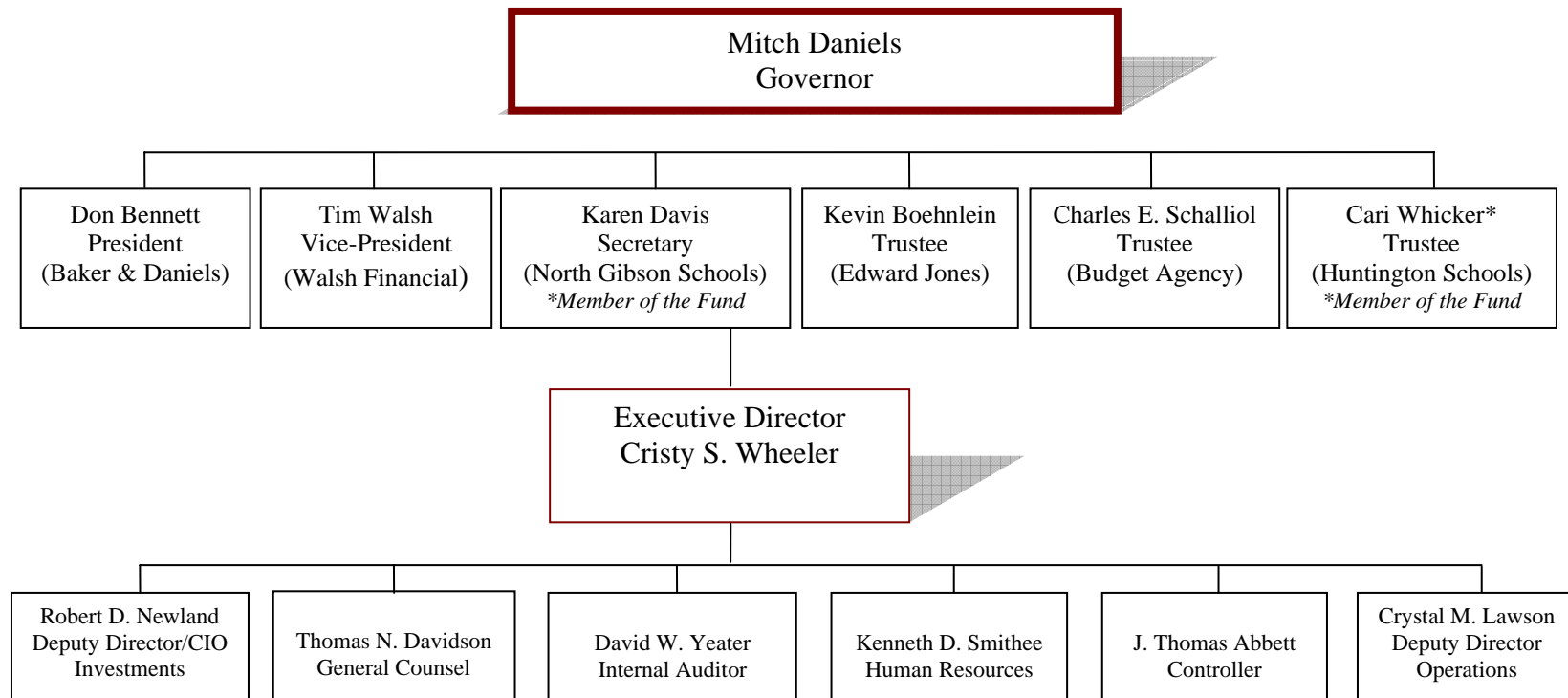
Sincerely,

Cristy Wheeler  
Executive Director

# Mission Statement

The mission of the Indiana State Teachers' Retirement Fund is to prudently manage the Fund in accordance with fiduciary standards, provide quality benefits, and deliver a high level of service to its members, while demonstrating responsibility to the citizens of the state.

## Organization Chart



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# Financial Statements

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INDIANA STATE TEACHERS' RETIREMENT FUND  
STATEMENT OF FIDUCIARY NET ASSETS  
June 30, 2006

Assets

Cash and Cash Equivalents	\$ 1,037,220,177
Securities Lending Collateral	<u>1,317,607,781</u>
Receivables	
Employer Contributions	22,997,354
Due From PERF	825,869
Member Contributions	35,838,987
Other	500,000
Securities Sold	705,948,710
Investments Interest	<u>31,134,389</u>
Total Receivables	<u>797,245,309</u>
Investments	
Debt securities	3,434,714,470
Equity securities	3,508,793,739
Other	<u>313,047,045</u>
Total Investments	<u>7,256,555,254</u>
Furniture and Equipment (Original Cost of \$280,175 Net of \$249,563 Accumulated Depreciation)	<u>30,612</u>
Insurance Premium Paid in Advance	<u>0</u>
Total Assets	<u>10,408,659,133</u>

Liabilities

Accrued Benefits Payable	0
Accrued Salaries Payable	97,375
Accrued Liability for Compensated Absences - Current	153,164
Accounts Payable	4,960,385
Due To PERF	0
Securities Lending Collateral	1,317,607,781
Payables for Securities Purchased	<u>1,294,293,153</u>
Total Current Liabilities	<u>2,617,111,858</u>
Accrued Liability for Compensated Absences - Long-Term	<u>123,444</u>
Total Liabilities	<u>2,617,235,302</u>
Net Assets Held in Trust for Pension Benefits (See Schedule of Funding Progress, Page (6))	<u>\$ 7,791,423,831</u>

- Unaudited -

INDIANA STATE TEACHERS' RETIREMENT FUND  
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
Year Ended June 30, 2006

Additions	
Contributions	
Member Contributions	\$ 130,496,002
Employer Contributions	671,340,085
Employer Contributions - Pension Stabilization	<u>30,000,000</u>
Total Contributions	<u>831,836,087</u>
Investments	
Net Appreciation (Depreciation) in Fair Value	357,187,368
Interest Income	165,264,619
Dividend Income	64,373,704
Securities Lending Income	58,937,319
Less Investment Expense	
Investment Fees	(18,609,224)
Securities Lending Fees	<u>(54,864,087)</u>
Net Investment Income	<u>572,289,699</u>
Other Additions	
Transfers From Other Retirement Funds	5,091,848
Annuity and Disability Refunds	1,012,005
Outdated Benefit Checks	0
Reimbursement of Administrative Expense	<u>2,026</u>
Total Other Additions	<u>6,105,879</u>
Total Additions	<u>1,410,231,665</u>
Deductions	
Annuity and Disability Benefits	780,705,544
Voluntary and Death Withdrawals	9,562,221
Claims on Outdated Benefit Checks	20,218
Administrative Expenses	6,074,416
Capital Projects	653,370
Depreciation Expenses	24,211
Transfers to Other Retirement Funds	<u>1,483,728</u>
Total Deductions	<u>798,523,708</u>
Change in Net Assets Held in Trust for Pension Benefits	611,707,957
Net Assets Beginning of Year	<u>7,179,715,874</u>
Net Assets End of Year	<u><u>\$ 7,791,423,831</u></u>

-Unaudited-

**ADMINISTRATIVE EXPENSES**  
**FISCAL YEAR ENDED JUNE 30, 2006**

**PERSONAL SERVICES:**

TRUSTEES PER DIEMS	\$6,164.00
STAFF SALARIES	\$2,142,501.42
SOCIAL SECURITY	\$156,332.49
RETIREMENT	\$292,220.60
INSURANCE	\$340,149.18
PERSONNEL RECLASSIFICATION/ADDITIONAL STAFFING	\$0.00
TEMPORARY SERVICES	<u>\$11,010.00</u>
Total Personal Services	\$2,948,377.69

**PROFESSIONAL & TECHNICAL SERVICES:**

ACTUARIAL	\$109,600.00
DATA PROCESSING	\$1,751,349.25
HEALTH INSURANCE CONSULTANT	\$22,578.00
DATA PROCESSING CONSULTANT	\$0.00
AUDIT	\$28,750.00
BENCHMARKING	\$30,000.00
LEGAL SERVICES	\$38,023.52
MEDICAL EXAMINATIONS	\$525.00
PENSION DEATH RECORD COMPARISON(PBI)	<u>\$13,664.50</u>
TOTAL PROFESSIONAL & TECHNICAL SERVICES	\$1,994,490.27

**COMMUNICATION:**

PRINTING	\$278,735.65
TELEPHONE	\$75,695.22
POSTAGE	\$373,127.62
TRAVEL	<u>\$22,615.86</u>
TOTAL COMMUNICATION	\$750,174.35

**MISCELLANEOUS:**

ADMINISTRATIVE LEGAL SERVICES	\$13,257.19
MEMBERSHIP & TRAINING	\$23,225.98
EQUIPMENT RENTAL	\$24,415.23
SUPPLIES	\$85,481.29
MAINTENANCE	\$9,517.40
BONDING	\$2,128.00
DEPRECIATION	\$24,211.00
OFFICE RENT	<u>\$223,348.60</u>
TOTAL MISCELLANEOUS	\$405,584.69

TOTAL ADMINISTRATIVE EXPENSES	\$6,098,627.00
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-Unaudited-



**SCHEDULE OF INVESTMENT EXPENSES**  
**FISCAL YEAR ENDED JUNE 30, 2006**

**Custodial**

The Northern Trust Company	<u>\$100,000.00</u>
<i>Total Custodial</i>	<u>\$100,000.00</u>
Investment Consultant	\$274,606.04
Investment Benchmarking	\$18,500.00

**Management**

**Fixed Income Managers**

Alliance Capital Mgmt.	\$918,781.00
Reams Asset Mgmt.	\$1,298,940.00
Taplin, Canida, Habacht	\$300,599.99

**Equity Managers**

Barclays	\$107,807.34
Rhumblin	\$145,470.76
PIMCO	\$3,231.00
Bridgewater Associates	\$1,446,221.25
GMO	\$237,243.10
Wells Capital Management	\$975,795.79
Alliance Capital Management	\$1,076,917.33
State Street Global Advisors	\$2,013,595.42
Earnest Partners, LLC	\$302,276.10
Gryphon International	\$897,128.10
Institutional Capital Corp.	\$335,952.00
Pacific Financial Research, Inc.	\$283,333.00
Enhanced Investment Technologies, Inc.	\$612,579.00
Holt-Smith & Yates Advisors	\$321,671.00
Manning & Napier	\$256,014.06
Franklin	\$462,838.78
Aeltus	\$1,512,542.34
Fishers Investments	\$966,283.16
Ariel Capital Management	\$933,506.60
Brandywine Asset Management, Inc.	\$984,516.67
Portfolio Advisors, Inc.	\$620,000.00
Total Money Management Fees	\$17,013,243.79

**TRF Investment Staff**

Staff Salaries	\$247,059.02
Fringe Benefits	\$82,161.21
Personnel Reclassification	<u>0.00</u>
	\$329,220.23

Investment Travel	\$12,719.09
Investment Management Software	\$35,900.00
Investment Transaction Fees	\$703,054.35
Administrative Investment Fees	<u>\$121,980.50</u>
Total Investment Fees	\$18,609,224.00

-Unaudited-

## Capital Projects

### TRF Shared Cost

	<i>Fiscal Year 2006</i>	<i>Life To Date</i>	<i>Total Project</i>
New Retirement Information System	<u>\$653,369.87</u>	<u>\$12,387,927.04</u>	<u>\$13,041,296.91</u>
Total Capital Projects	\$653,369.87	\$12,387,927.04	\$13,041,296.91

**Schedule of Funding Progress**  
**(Dollar amounts in Millions)**

<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets (a)</b>	<b>Actuarial Accrued Liability (AAL) - Entry Age (b)</b>	<b>Unfunded AAL (UAAL) (b - a)</b>	<b>Funded Ratio (a / b)</b>	<b>Covered Payroll (c)</b>	<b>UAAL as a Percentage of Covered Payroll ((b - a) / c)</b>
6/30/77	\$346	\$2,145	\$1,799	16.13%	\$892	201.68%
6/30/79	417	2,582	2,165	16.15%	1,025	211.22%
6/30/81	484	2,957	2,473	16.37%	1,195	206.95%
6/30/83	747	3,338	2,591	22.38%	1,350	191.93%
6/30/85	1,091	4,023	2,932	27.12%	1,520	192.89%
6/30/87	1,409	4,837	3,428	29.13%	1,752	195.66%
6/30/89	1,737	6,205	4,468	27.99%	2,045	218.48%
6/30/91	2,190	7,182	4,992	30.49%	2,279	219.04%
6/30/92	2,496	7,949	5,453	31.40%	2,416	225.70%
6/30/93	2,812	8,508	5,696	33.05%	2,536	224.61%
6/30/94	2,768	9,087	6,319	30.46%	2,615	241.64%
6/30/95	3,103	9,675	6,572	32.07%	2,729	240.82%
6/30/96	3,263	10,331	7,068	31.58%	2,879	245.50%
6/30/97	3,750	11,044	7,294	33.96%	2,985	244.39%
6/30/1998	4,266	11,779	7,513	36.22%	3,095	242.75%
6/30/1999	4,971	12,671	7,700	39.23%	3,294	233.76%
6/30/2000	5,578	13,115	7,537	42.53%	3,283	229.58%
6/30/2001	5,810	13,524	7,714	42.96%	3,318	232.49%
6/30/2002	6,176	14,665	8,489	42.11%	3,610	235.15%
6/30/2003	6,555	14,747	8,192	44.45%	3,585	228.51%
6/30/2004	6,804	15,198	8,394	44.77%	3,652	229.85%
6/30/2005	7,065	16,265	9,200	43.44%	3,734	246.38%

## Schedule of Employer Contributions

<b>Year Ended June 30</b>	<b>Annual Required Contributions</b>	<b>Contributed By Employers</b>	<b>Contributed By The State</b>	<b>Percentage Contributed (b + c) / a)</b>
	<b>(a)</b>	<b>(b)</b>	<b>(c)</b>	
1983	\$181,640	2,503	93,207	52.69%
1985	181,575	5,910	174,399	99.30%
1987	214,776	6,810	129,907	63.66%
1989	236,695	7,804	154,627	68.62%
1991	319,429	8,539	232,861	75.57%
1992	357,575	9,377	197,250	57.79%
1993	394,291	9,180	194,900	51.76%
1994	413,622	11,013	219,782	55.80%
1995	433,044	10,977	228,200	55.23%
1996	456,835	15,907	297,451	68.59%
1997	488,278	28,761	508,867	110.11%
1998	508,939	41,098	424,252	91.44%
1999	508,260	56,650	555,700	120.48%
2000	524,815	70,641	576,800	123.37%
2001	547,532	83,285	605,900	125.87%
2002	537,789	100,826	465,400	105.29%
2003	572,226	111,931	490,300	105.24%
2004	638,541	96,858	328,029	66.54%
2005	619,186	107,947	376,832	78.29%
2006	672,556	116,459	584,880	104.28%

## PENSION STABILIZATION FUND

DATE	TRANSACTION DESCRIPTION	CONTRIBUTIONS	INTEREST EARNED	BALANCE
<b>1995</b>				
JULY 1	ESTABLISHMENT OF ACCOUNT			\$439,700,498.50
<b>1996</b>				
JUNE 30	CONTRIBUTIONS FROM STATE	\$25,000,000.00		\$464,700,498.50
JUNE 30	CONTRIBUTIONS FROM LOTTERY	\$30,000,000.00		\$494,700,498.50
JUNE 30	CONTRIBUTIONS FROM STATE	\$92,851.68		\$494,793,350.18
JUNE 30	INTEREST CREDITED		\$39,573,044.87	\$534,366,395.05
<b>1997</b>				
JUNE 30	CONTRIBUTIONS FROM STATE	\$24,999,998.97		\$559,366,394.02
JUNE 30	CONTRIBUTIONS FROM STATE	\$200,000,000.00		\$759,366,394.02
JUNE 30	CONTRIBUTIONS FROM STATE	\$93,567.95		\$759,459,961.97
JUNE 30	CONTRIBUTIONS FROM LOTTERY	\$30,000,000.00		\$789,459,961.97
JUNE 30	INTEREST CREDITED		\$45,421,143.58	\$834,881,105.55
<b>1998</b>				
JUNE 30	CONTRIBUTIONS FROM STATE	\$75,000,000.00		\$909,881,105.55
JUNE 30	CONTRIBUTIONS FROM STATE	\$78,286.28		\$909,959,391.83
JUNE 30	CONTRIBUTIONS FROM LOTTERY	\$30,000,000.00		\$939,959,391.83
JUNE 30	INTEREST CREDITED		\$66,790,488.44	\$1,006,749,880.27
<b>1999</b>				
JUNE 30	CONTRIBUTIONS FROM STATE	\$75,000,000.00		\$1,081,749,880.27
JUNE 30	CONTRIBUTIONS FROM STATE	\$75,639.23		\$1,081,825,519.50
JUNE 30	CONTRIBUTIONS FROM LOTTERY	\$30,000,000.00		\$1,111,825,519.50
JUNE 30	INTEREST CREDITED		\$80,539,990.42	\$1,192,365,509.92
JUNE 30	DISTRIBUTION FROM UNDISTRIBUTED INVESTMENT INCOME(P.L.)		\$148,512,367.47	\$1,340,877,877.39
<b>2000</b>				
JUNE 30	CONTRIBUTIONS FROM STATE	\$125,000,000.00		\$1,465,877,877.39
JUNE 30	CONTRIBUTIONS FROM LOTTERY	\$37,500,000.00		\$1,503,377,877.39
JUNE 30	CONTRIBUTIONS FROM STATE	\$38,810.02		\$1,503,416,687.41
JUNE 30	FUNDS FROM PENSION PAYOUTS	\$15,506,789.63		\$1,518,923,477.04
JUNE 30	INTEREST/EARNINGS CREDITED		\$117,863,098.59	\$1,636,786,575.63
JUNE 30	DISTRIBUTION FROM UNDISTRIBUTED INVESTMENT INCOME		\$35,860,604.81	\$1,672,647,180.44
<b>2001</b>				
JUNE 30	CONTRIBUTIONS FROM STATE	\$125,000,000.00		\$1,797,647,180.44
JUNE 30	CONTRIBUTIONS FROM LOTTERY	\$30,000,000.00		\$1,827,647,180.44
JUNE 30	CONTRIBUTIONS FROM STATE	\$45,735.83		\$1,827,692,916.27
JUNE 30	FUNDS FROM PENSION PAYOUTS	\$19,650,613.19		\$1,847,343,529.46
JUNE 30	INTEREST/EARNINGS CREDITED		(\$14,302,550.56)	\$1,833,040,978.90
<b>2002</b>				

-Unaudited-

## PENSION STABILIZATION FUND

DATE	TRANSACTION DESCRIPTION	CONTRIBUTIONS	INTEREST EARNED	BALANCE
JUNE 30	CONTRIBUTIONS FROM LOTTERY	\$30,000,000.00		\$1,863,040,978.90
JUNE 30	CONTRIBUTIONS FROM STATE	\$43,876.37		\$1,863,084,855.27
JUNE 30	FUNDS FROM PENSION PAYOUTS	\$13,798,154.19		\$1,876,883,009.46
JUNE 30	INTEREST/EARNINGS CREDITED		(\$90,065,130.79)	\$1,786,817,878.67
<b>2003</b>				
JUNE 30	CONTRIBUTIONS FROM LOTTERY	\$30,000,000.00		\$1,816,817,878.67
JUNE 30	CONTRIBUTIONS FROM STATE	\$34,359.51		\$1,816,852,238.18
JUNE 30	FUNDS FROM PENSION PAYOUTS	\$19,287,539.68		\$1,836,139,777.86
JUNE 30	INTEREST/EARNINGS CREDITED		\$23,654,725.65	\$1,859,794,503.51
<b>2004</b>				
JUNE 30	CONTRIBUTIONS FROM STATE	\$16,802.38		\$1,859,811,305.89
JUNE 30	FUNDS FROM PENSION PAYOUTS	(\$182,218,797.05)		\$1,677,592,508.84
JUNE 30	INTEREST/EARNINGS CREDITED		\$275,473,173.63	\$1,953,065,682.47
<b>2005</b>				
JUNE 30	CONTRIBUTIONS FROM STATE	\$15,689.24		\$1,953,081,371.71
JUNE 30	FUNDS FROM PENSION PAYOUTS	(\$168,633,420.65)		\$1,784,447,951.06
JUNE 30	INTEREST/EARNINGS CREDITED		\$186,583,683.52	\$1,971,031,634.58
<b>2006</b>				
JUNE 30	CONTRIBUTIONS FROM STATE	\$17,092.78		\$1,971,048,727.36
JUNE 30	TRANSFER TO 96 FUND(HEA 1001, SEC 235)	(\$715,000,000.00)		\$1,256,048,727.36
JUNE 30	INTEREST/EARNINGS CREDITED		\$251,012,638.28	\$1,507,061,365.64
JUNE 30	CONTRIBUTIONS FROM LOTTERY	\$30,000,000.00		\$1,537,061,365.64

-Unaudited-

Schedule of Allotments Received and Actual Payouts

MONTH*	STATE PENSION(100-745)			COLA'S (100-743)		
	ACTUAL PAYOUT	ALLOTMENTS RECEIVED	OVERPAYMENT (SHORTAGE)	ACTUAL PAYOUT	ALLOTMENTS RECEIVED	OVERPAYMENT (SHORTAGE)
<b>05-06</b>						
JUL.	\$18,013,401	\$16,500,000	(\$1,513,401)	\$3,354,784	\$3,550,000	(\$1,318,185)
AUG.	\$19,343,430	\$16,500,000	(\$2,843,430)	\$3,338,977	\$3,550,000	(\$2,632,407)
SEPT.	\$20,463,252	\$16,500,000	(\$3,963,252)	\$3,325,677	\$3,550,000	(\$3,738,929)
OCT.	\$18,852,530	\$16,500,000	(\$2,352,530)	\$3,308,096	\$3,550,000	(\$2,110,625)
NOV.	\$18,709,352	\$16,500,000	(\$2,209,352)	\$3,285,721	\$3,550,000	(\$1,945,073)
DEC.	\$18,697,008	\$16,500,000	(\$2,197,008)	\$3,264,821	\$3,550,000	(\$1,911,829)
JAN.	\$18,670,825	\$16,500,000	(\$2,170,825)	\$3,237,480	\$3,550,000	(\$1,858,305)
FEB.	\$18,590,594	\$16,500,000	(\$2,090,594)	\$3,218,398	\$3,550,000	(\$1,758,992)
MAR.	\$18,802,057	\$16,500,000	(\$2,302,057)	\$3,197,670	\$3,550,000	(\$1,949,727)
APR.	\$18,777,636	\$16,500,000	(\$2,277,636)	\$3,180,596	\$3,550,000	(\$1,908,232)
MAY	\$18,708,278	\$16,500,000	(\$2,208,278)	\$3,160,690	\$3,550,000	(\$1,818,968)
JUN.	<u>\$18,717,544</u>	<u>\$16,500,000</u>	<u>(\$2,217,544)</u>	<u>\$3,145,112</u>	<u>\$3,550,000</u>	<u>(\$1,812,656)</u>
<b>TOTALS</b>	<u>\$226,345,906</u>	<u>\$198,000,000</u>	<u>(\$28,345,906)</u>	<u>\$39,018,021</u>	<u>\$42,600,000</u>	<u>(\$24,763,927)</u>

-Unaudited-

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# Actuarial Summary

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## INDIANA STATE TEACHERS' RETIREMENT FUND

### ACTUARIAL SUMMARY

	<u>June 30, 2005</u>	<u>June 30, 2004</u>	<u>CHANGE</u>
PRE- 96 FUND UNFUNDED ACCRUED LIABILITY	\$8,457,422,909	\$7,782,857,609	\$674,565,300
96 FUND UNFUNDED ACCRUED LIABILITY	<u>\$742,171,059</u>	<u>\$610,673,752</u>	<u>\$131,497,307</u>
TOTAL ACTUARIAL LIABILITY	<u>\$9,199,593,968</u>	<u>\$8,393,531,361</u>	<u>\$806,062,607</u>

### ACTUARIAL ANALYSIS OF CHANGE IN ACTUARIAL LIABILITY FROM PREVIOUS YEAR'S VALUATION:

#### PRE - 96 FUND:

During the year ended June 30,2005, the Unfunded Actuarial Accrued Liability in the Pre-96 Plan Increased \$674.6 million. The increase resulted from multiple factors, including ( but not limited to) the lack of pre-funding, the ad-hoc COLA effective January 1, 2006 pursuant to IC 5-10.2-5-39, continued recognition of prior market losses in the Funding Value of Assets that were not offset by the current year's market gains and addition of a assumed future ad-hoc COLA of 0.5%, to be compounded annually. The dollar value of the total Actuarial Accrued Liabilities increased by \$705,621,206, while the corresponding Funding Value of Assets increased by only \$31,055,965.

#### 96 FUND:

During the year ended June 30,2005, the Unfunded Actuarial Accrued Liability in the 96 Plan Increased \$131.5 million. The increase resulted from multiple factors, including ( but not limited to) , the ad-hoc COLA effective January 1, 2006 pursuant to IC 5-10.2-5-39, continued recognition of prior market losses in the Funding Value of Assets that were not offset by the current year's market gains and addition of a assumed future ad-hoc COLA of 0.5%, to be compounded annually. The dollar value of the total Actuarial Accrued Liabilities increased by \$361,346,200, while the corresponding Funding Value of Assets increased by only \$229,848,893.

# DEVELOPMENT OF ASSETS AND LIABILITIES

## JUNE 30, 2005

### (MARKET VALUE BASIS)

Reserve Allocation	Pre-1996 Fund	1996 Fund	Total
<b>Member Reserves:</b>			
Active and Inactive	\$2,925,366,625	\$535,179,132	\$3,460,545,757
Retired	669,751,284	21,056,995	690,808,279
Total Member Reserves	3,595,117,909	556,236,127	4,151,354,036
<b>Employer Reserves:</b>			
Active	0	605,371,216	605,371,216
Retired			
Pension Stabilization Fund	1,971,031,635	0	1,971,031,635
Other	324,447,037	127,511,951	451,958,988
Total	2,295,478,672	127,511,951	2,422,990,623
Total Employer Reserves	2,295,478,672	732,883,167	3,028,361,839
Total Reserves	<b>\$5,890,596,581</b>	<b>\$1,289,119,294</b>	<b>\$7,179,715,875</b>

### ACTUARIAL ACCRUED LIABILITY: COMPUTED AND UNFUNDED

	Pre-1996 Fund	1996 Fund	Total
<b>Retired Members and Beneficiaries:</b>			
Computed accrued liability	\$ 5,653,502,508	\$ 219,721,536	\$ 5,873,224,044
Allocated assets (market value)	2,965,229,956	148,568,946	3,113,798,902
Funding Value adjustment	(47,254,089)	(2,367,604)	(49,621,693)
Unfunded Accrued Liability	2,735,526,641	73,520,194	2,809,046,835
<b>Active and Inactive Members:</b>			
Computed accrued liability	8,600,644,068	1,791,025,332	10,391,669,400
Allocated assets (market value)	2,925,366,625	1,140,550,348	4,065,916,973
Funding Value adjustment	(46,618,825)	(18,175,881)	(64,794,706)
Unfunded Accrued Liability	5,721,896,268	668,650,865	6,390,547,133
<b>ISTRF Total:</b>			
Computed accrued liability	14,254,146,576	2,010,746,868	16,264,893,444
Allocated assets (market value)	5,890,596,581	1,289,119,294	7,179,715,875
Funding Value adjustment	(93,872,914)	(20,543,485)	(114,416,399)
Unfunded Accrued Liability	<b>\$ 8,457,422,909</b>	<b>\$ 742,171,059</b>	<b>\$ 9,199,593,968</b>

**PRE-1996 FUND BALANCE SHEET**  
**SUMMARY STATEMENT OF FUND RESOURCES AND OBLIGATIONS**  
**JUNE 30, 2005**

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**PRESENT RESOURCES AND EXPECTED FUTURE RESOURCES**

	<b>Annuities</b>	<b>Pensions</b>	<b>Total</b>
A. Funding value of system assets			
1. Net assets from Fund financial statements	\$3,595,117,909	\$ 2,295,478,672	\$ 5,890,596,581
2. Funding value adjustment	(57,292,023)	(36,580,891)	(93,872,914)
3. Funding value of assets	3,537,825,886	2,258,897,781	5,796,723,667
B. Actuarial present value of expected future employer contributions			
1. For normal costs	0	1,157,487,700	1,157,487,700
2. For unfunded actuarial accrued liability	48,179,944	8,409,242,965	8,457,422,909
3. Total	48,179,944	9,566,730,665	9,614,910,609
C. Present value of expected future member contributions*	565,329,678	0	565,329,678
D. Total Present and Future Resources	\$4,151,335,508	\$11,825,628,446	\$15,976,963,954

**ACTUARIAL PRESENT VALUE OF EXPECTED FUTURE  
BENEFIT PAYMENTS AND RESERVES**

	<b>Annuities</b>	<b>Pensions</b>	<b>Total</b>
A. To retired members and beneficiaries			
1. Annual benefits	\$ 707,258,030	\$ 4,946,244,478	\$ 5,653,502,508
2. Reserve	0	0	0
3. Totals	707,258,030	4,946,244,478	5,653,502,508
B. To vested terminated members	203,926,330	150,432,461	354,358,791
C. To present active members			
1. Allocated to service rendered prior to valuation date	2,674,821,470	5,571,463,807	8,246,285,277
2. Allocated to service likely to be rendered after valuation date*	565,329,678	1,157,487,700	1,722,817,378
3. Total	3,240,151,148	6,728,951,507	9,969,102,655
D. Total Actuarial Present Value of Expected Future Benefit Payments and Reserves	\$4,151,335,508	\$11,825,628,446	\$15,976,963,954

\* Based on 3% mandatory member contributions.

**1996 FUND BALANCE SHEET**  
**SUMMARY STATEMENT OF FUND RESOURCES AND OBLIGATIONS**  
**JUNE 30, 2005**

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**PRESENT RESOURCES AND EXPECTED FUTURE RESOURCES**

	<b>Annuities</b>	<b>Pensions</b>	<b>Total</b>
A. Funding value of system assets			
1. Net assets from Fund financial statements	\$556,236,127	\$ 732,883,167	\$ 1,289,119,294
2. Funding value adjustment	(8,864,214)	(11,679,271)	(20,543,485)
3. Funding value of assets	547,371,913	721,203,896	1,268,575,809
B. Actuarial present value of expected future employer contributions			
1. For normal costs	0	1,286,429,089	1,286,429,089
2. For unfunded actuarial accrued liability	1,514,779	740,656,280	742,171,059
3. Total	1,514,779	2,027,085,369	2,028,600,148
C. Present value of expected future member contributions*	613,550,197	0	613,550,197
D. Total Present and Future Resources	\$1,162,436,889	\$2,748,289,265	\$3,910,726,154

**ACTUARIAL PRESENT VALUE OF EXPECTED FUTURE  
BENEFIT PAYMENTS AND RESERVES**

	<b>Annuities</b>	<b>Pensions</b>	<b>Total</b>
A. To retired members and beneficiaries			
1. Annual benefits	\$ 22,236,208	\$ 197,485,328	\$ 219,721,536
2. Reserve	0	0	0
3. Totals	22,236,208	197,485,328	219,721,536
B. To vested terminated members	57,351,750	23,251,433	80,603,183
C. To present active members			
1. Allocated to service rendered prior to valuation date	469,298,734	1,241,123,415	1,710,422,149
2. Allocated to service likely to be rendered after valuation date*	613,550,197	1,286,429,089	1,899,979,286
3. Total	1,082,848,931	2,527,552,504	3,610,401,435
D. Total Actuarial Present Value of Expected Future Benefit Payments	\$1,162,436,889	\$2,748,289,265	\$3,910,726,154

\* Based on 3% mandatory member contributions.

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# Investment Reports

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**ANNUITY SAVINGS ACCOUNT INVESTMENT OPTION RATES OF RETURN  
FOR THE FISCAL YEAR ENDING JUNE 30**

	<u><b>2006</b></u>	<u><b>2005</b></u>	<u><b>2004</b></u>	<u><b>2003</b></u>	<u><b>2002</b></u>
S&P500 Index Fund	8.59%	6.35%	18.99%	0.31%	-17.96%
Small Cap Equity Fund	10.12%	10.07%	29.28%	-1.33%	-4.46%
International Fund	29.74%	14.06%	29.58%	-7.15%	-11.98%
Bond Fund	0.23%	7.16%	2.15%	13.85%	5.54%
Guaranteed Fund	6.00%	6.25%	6.75%	7.00%	7.50%

**RATES OF RETURN FOR EMPLOYER INVESTMENTS  
FOR THE FISCAL YEAR ENDING JUNE 30**

	<u><b>2006</b></u>	<u><b>2005</b></u>	<u><b>2004</b></u>	<u><b>2003</b></u>	<u><b>2002</b></u>
Large Cap Equities	8.72%	7.07%	19.07%	0.76%	-17.35%
Mid Cap Equities	11.68%	16.61%	27.65%	-5.10%	-8.60%
Small Cap Equities	10.55%	11.55%	30.32%	-0.76%	-4.26%
International Equities	28.16%	14.28%	26.80%	-8.23%	-11.72%
Fixed Income	1.00%	6.84%	1.80%	12.17%	6.02%
Real Estate	-0.26%	0.00%	0.00%	0.00%	0.00%
Private Equity	23.11%	22.37%	7.28%	9.35%	0.00%
Absolute Return	6.19%	n/a	n/a	n/a	n/a
COMPOSITE RETURN	11.43%	8.64%	11.82%	6.17%	-2.60%

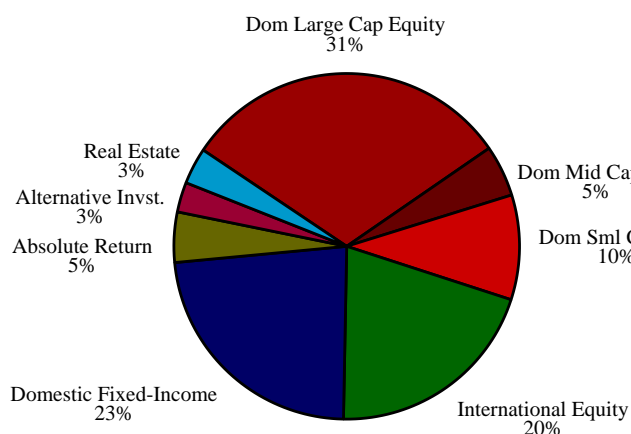
**EMPLOYER ASSET ALLOCATION  
FOR THE FISCAL YEAR ENDING JUNE 30**

	<u><b>2006</b></u>	<u><b>2005</b></u>	<u><b>2004</b></u>	<u><b>2003</b></u>	<u><b>2002</b></u>
Large Cap Equities	31.0%	42.8%	49.2%	30.8%	26.6%
Mid Cap Equities	4.8%	4.8%	4.6%	4.0%	5.9%
Small Cap Equities	9.8%	9.6%	7.5%	8.1%	4.5%
International Equities	20.3%	19.6%	18.6%	13.9%	16.7%
Fixed Income	23.2%	21.5%	19.3%	42.7%	46.3%
Real Estate	3%	0%	0.00%	0.00%	0.00%
Private Equity	2.8%	1.7%	0.9%	0.5%	0.1%
Absolute Return	5%	n/a	n/a	n/a	n/a
<b>TOTAL</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

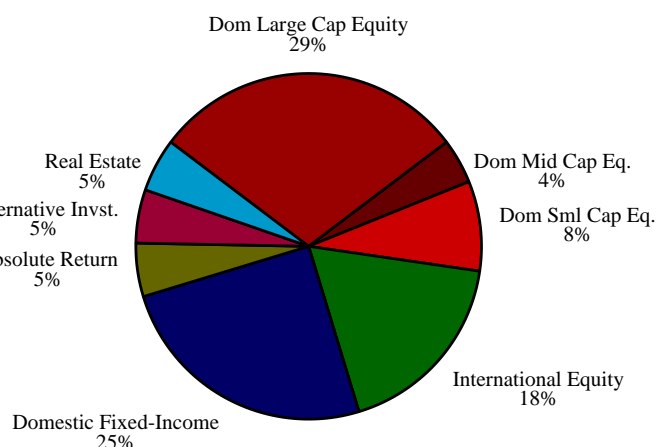
### Actual vs Target Asset Allocation

The top left chart shows the Fund's asset allocation as of June 30, 2006. The top right chart shows the Fund's target asset allocation as outlined in the investment policy statement. The bottom chart ranks the fund's asset allocation and the target allocation versus the CAI Public Fund Sponsor Database.

#### Actual Asset Allocation

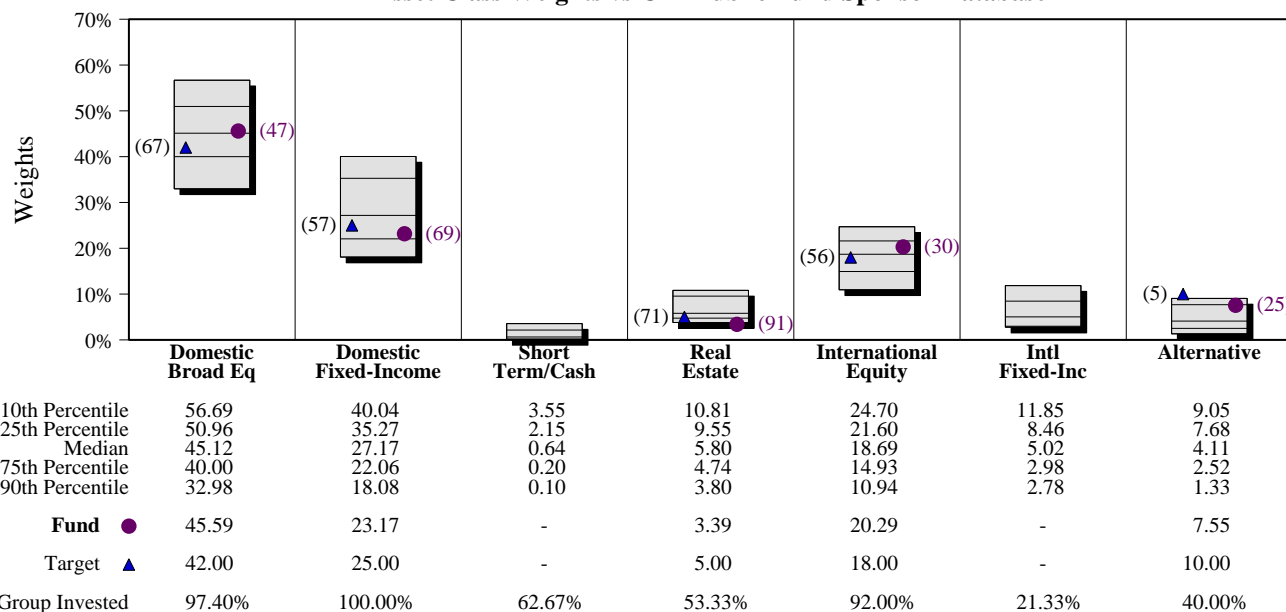


#### Target Asset Allocation



Asset Class	\$Millions Actual	Percent Actual	Percent Target	Percent Difference	\$Millions Difference
Dom Large Cap Equity	1,395	31.0%	29.4%	1.6%	73
Dom Mid Cap Eq.	214	4.8%	4.2%	0.6%	25
Dom Sml Cap Eq.	440	9.8%	8.4%	1.4%	63
International Equity	912	20.3%	18.0%	2.3%	103
Domestic Fixed-Income	1,042	23.2%	25.0%	(1.8%)	(82)
Absolute Return	212	4.7%	5.0%	(0.3%)	(13)
Alternative Invst.	127	2.8%	5.0%	(2.2%)	(98)
Real Estate	153	3.4%	5.0%	(1.6%)	(72)
Total	4,496	100.0%	100.0%		

#### Asset Class Weights vs CAI Public Fund Sponsor Database



\* Current Quarter Target = 29.4% S&P 500, 25.0% L/B Agg, 18.0% MSCI EAFE Index, 8.4% Russell 2000, 5.0% Dow Jones Wilshire RESI, 5.0% Dow Jones Wilshire 5000, 5.0% 90 Day T-Bill + 5 % and 4.2% S&P Mid Cap 400.

### Investment Manager Asset Allocation

The table below contrasts the distribution of assets across the Fund's investment managers as of June 30, 2006, with the distribution as of March 31, 2006.

#### Asset Distribution Across Investment Managers

	June 30, 2006		March 31, 2006	
	Market Value	Percent	Market Value	Percent
<b>Employer Assets</b>	<b>\$4,495,711,090</b>	<b>58.11%</b>	<b>\$4,590,005,411</b>	<b>58.81%</b>
Domestic Large Cap Equity	1,395,143,282	18.03%	1,603,742,762	20.55%
Domestic Mid Cap Equity	214,307,233	2.77%	220,785,612	2.83%
Domestic Small Cap Equity	440,356,405	5.69%	464,657,450	5.95%
International Equity	912,285,473	11.79%	1,012,531,379	12.97%
Domestic Fixed-Income	1,041,628,711	13.46%	894,759,615	11.46%
Absolute Return	212,284,268	2.74%	208,958,052	2.68%
Alternative Investment	127,170,031	1.64%	106,021,296	1.36%
Real Estate	152,535,687	1.97%	78,549,245	1.01%
<b>Employee Assets</b>	<b>\$3,240,696,886</b>	<b>41.89%</b>	<b>\$3,215,294,800</b>	<b>41.19%</b>
Domestic Large Cap Equity	638,760,329	8.26%	639,233,810	8.19%
Domestic Small Cap Equity	362,726,034	4.69%	377,724,833	4.84%
International Equity	156,186,316	2.02%	146,451,848	1.88%
Domestic Fixed-Income	2,083,024,207	26.92%	2,051,884,309	26.29%
<b>Total Fund</b>	<b>\$7,736,407,976</b>	<b>100.0%</b>	<b>\$7,805,300,211</b>	<b>100.0%</b>



## Investment Manager Asset Allocation

The table below contrasts the distribution of assets across the Fund's investment managers as of June 30, 2006, with the distribution as of June 30, 2005.

### Asset Distribution Across Investment Managers

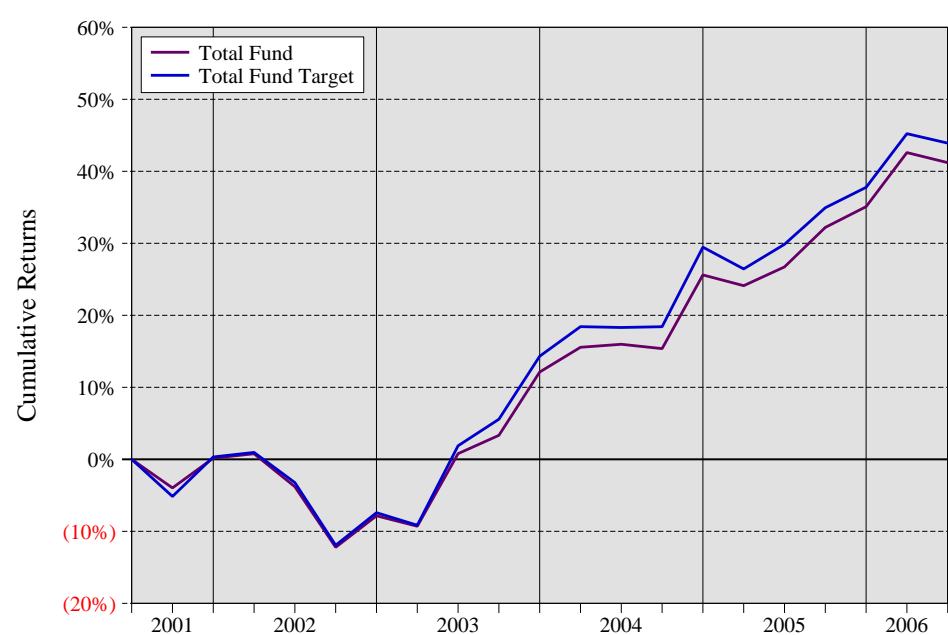
	June 30, 2006		June 30, 2005	
	Market Value	Percent	Market Value	Percent
<b>Domestic Equity</b>	<b>\$3,051,293,283</b>	<b>39.44%</b>	<b>\$3,265,579,375</b>	<b>45.81%</b>
<b>Large Cap Equity</b>	<b>\$2,033,903,611</b>	<b>26.29%</b>	<b>\$2,339,765,653</b>	<b>32.82%</b>
<b>Passive</b>				
BGI (Equity Index)	696,011,313	9.00%	626,215,520	8.78%
Rhumbline	391,413,459	5.06%	360,205,730	5.05%
BGI (Russell 3000)	12,054	0.00%	477,716,235	6.70%
<b>Enhanced</b>				
PIMCO	564,745,344	7.30%	520,800,983	7.31%
<b>Growth</b>				
INTECH	124,878,714	1.61%	116,956,105	1.64%
H-S&Y	56,992,934	0.74%	57,308,661	0.80%
<b>Value</b>				
Earnest	72,465,800	0.94%	64,619,363	0.91%
ICAP	64,282,648	0.83%	55,910,081	0.78%
PFR	-	-	60,032,975	0.84%
Barrow Hanley	63,101,345	0.82%	-	-
<b>Mid Cap Equity</b>	<b>\$214,307,233</b>	<b>2.77%</b>	<b>\$192,340,730</b>	<b>2.70%</b>
<b>Core</b>				
Franklin Associates	214,307,233	2.77%	192,340,730	2.70%
<b>Small Cap Equity</b>	<b>\$803,082,439</b>	<b>10.38%</b>	<b>\$733,472,992</b>	<b>10.29%</b>
<b>Growth</b>				
Aeltus Capital Management	209,598,282	2.71%	180,228,746	2.53%
Rhumbline Advisors	-	-	143,385,503	2.01%
Wells	204,458,739	2.64%	-	-
<b>Value</b>				
Ariel Capital Management	189,503,881	2.45%	221,656,927	3.11%
Brandywine Capital Mgmt	199,521,537	2.58%	188,201,816	2.64%
<b>International Equity</b>	<b>\$1,068,471,789</b>	<b>13.81%</b>	<b>\$898,074,267</b>	<b>12.60%</b>
Alliance Capital Mgmt	60,686	0.00%	5,133,160	0.07%
Bank of Ireland	33,592	0.00%	1,149,065	0.02%
Alliance Bernstein	195,051,328	2.52%	160,689,844	2.25%
Fisher	146,278,345	1.89%	133,254,353	1.87%
Gryphon	185,253,377	2.39%	159,745,137	2.24%
Manning & Napier	40,189,500	0.52%	26,426,422	0.37%
State Street	504,604,961	6.52%	411,676,286	5.78%
<b>Domestic Fixed-Income</b>	<b>\$3,124,652,918</b>	<b>40.39%</b>	<b>\$2,894,244,963</b>	<b>40.60%</b>
Alliance Capital Mgmt	1,372,736,465	17.74%	1,294,174,064	18.15%
Reams Asset Management	1,372,932,920	17.75%	1,289,879,219	18.09%
Taplin, Canida & Habacht	304,192,193	3.93%	281,325,145	3.95%
Cash Flow Account	74,791,340	0.97%	28,866,535	0.40%
<b>Absolute Return</b>	<b>\$212,284,268</b>	<b>2.74%</b>	-	-
Bridgewater	106,555,227	1.38%	-	-
GMO	105,729,041	1.37%	-	-
<b>Real Estate</b>	<b>\$152,535,687</b>	<b>1.97%</b>	<b>\$47,510</b>	<b>0.00%</b>
TA Associates	30,804,070	0.40%	47,510	0.00%
RREEF	121,731,617	1.57%	-	-
<b>Alternative Investment</b>	<b>\$127,170,031</b>	<b>1.64%</b>	<b>\$70,583,755</b>	<b>0.99%</b>
Portfolio Advisors	127,170,031	1.64%	70,583,755	0.99%
<b>Total Fund</b>	<b>\$7,736,407,976</b>	<b>100.0%</b>	<b>\$7,128,529,870</b>	<b>100.0%</b>

\* Indicates managers who were terminated during fourth quarter 2004.

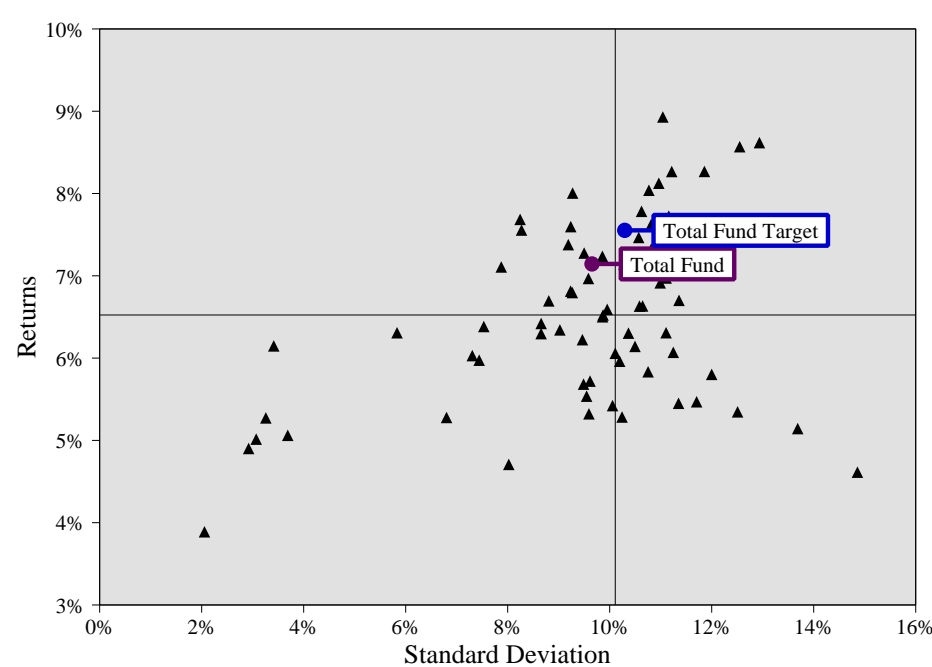
## Cumulative Performance Relative to Target

The first chart below illustrates the cumulative performance of the Total Fund relative to the cumulative performance of the Fund's Target Asset Mix. The Target Mix is assumed to be rebalanced each quarter with no transaction costs. The second chart below shows the return and the risk of the Total Fund and the Target Mix, contrasted with the returns and risks of the plans in the Public Plan Sponsor Database.

### Cumulative Returns Actual vs Target



### Five Year Annualized Risk vs Return



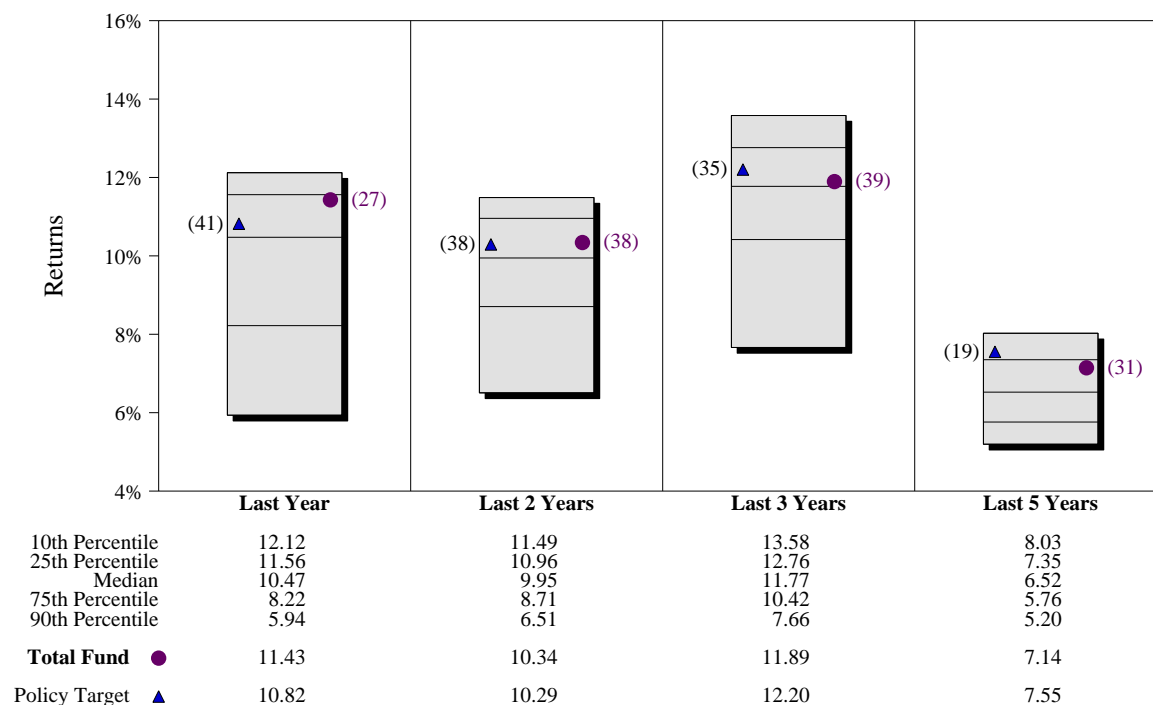
Triangles represent membership of the CAI Public Fund Sponsor Database

\* Current Quarter Target = 29.4% S&P 500, 25.0% L/B Agg, 18.0% MSCI EAFE Index, 8.4% Russell 2000, 5.0% Dow Jones Wilshire RESI, 5.0% Dow Jones Wilshire 5000, 5.0% 90 Day T-Bill + 5 % and 4.2% S&P Mid Cap 400.

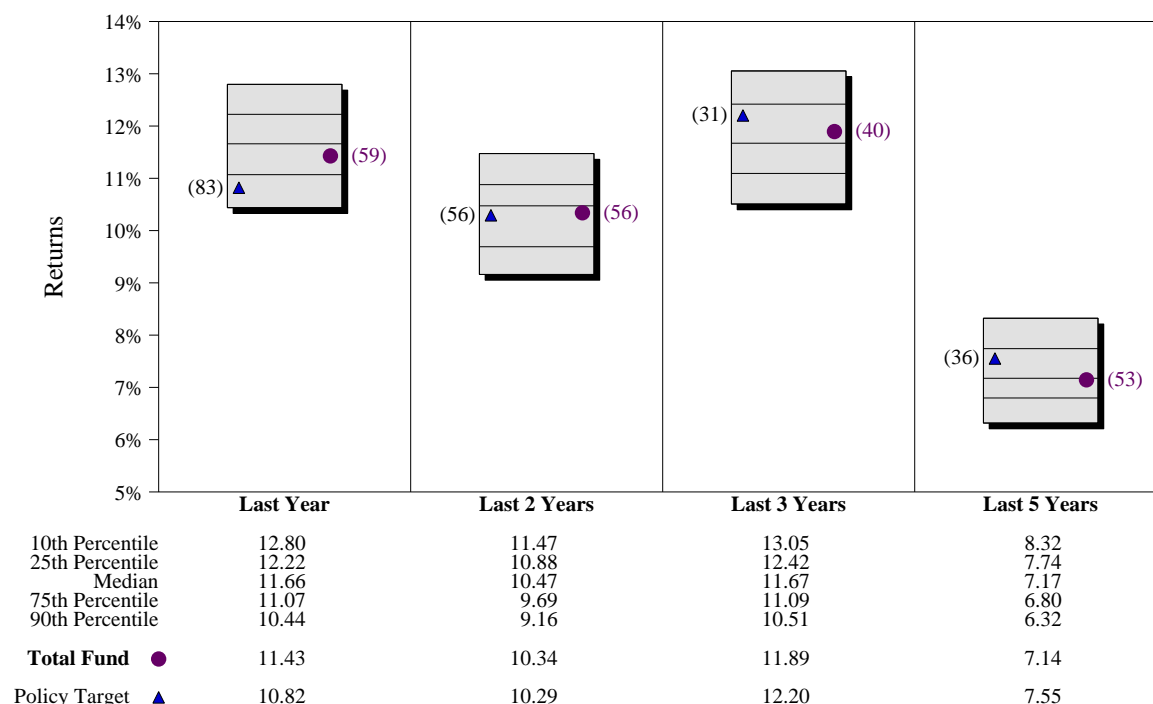
### Total Fund Ranking

The first two charts show the ranking of the Total Fund's performance relative to that of the CAI Public Fund Sponsor Database for periods ended June 30, 2006. The first chart is a standard unadjusted ranking. In the second chart each fund in the database is adjusted to have the same historical asset allocation as that of the Total Fund.

#### CAI Public Fund Sponsor Database



#### Asset Allocation Adjusted Ranking



\* Current Quarter Target = 29.4% S&P 500, 25.0% L/B Agg, 18.0% MSCI EAFE Index, 8.4% Russell 2000, 5.0% Dow Jones Wilshire RESI, 5.0% Dow Jones Wilshire 5000, 5.0% 90 Day T-Bill + 5 % and 4.2% S&P Mid Cap 400.

# TOTAL DOMESTIC EQUITY PERIOD ENDED JUNE 30, 2006



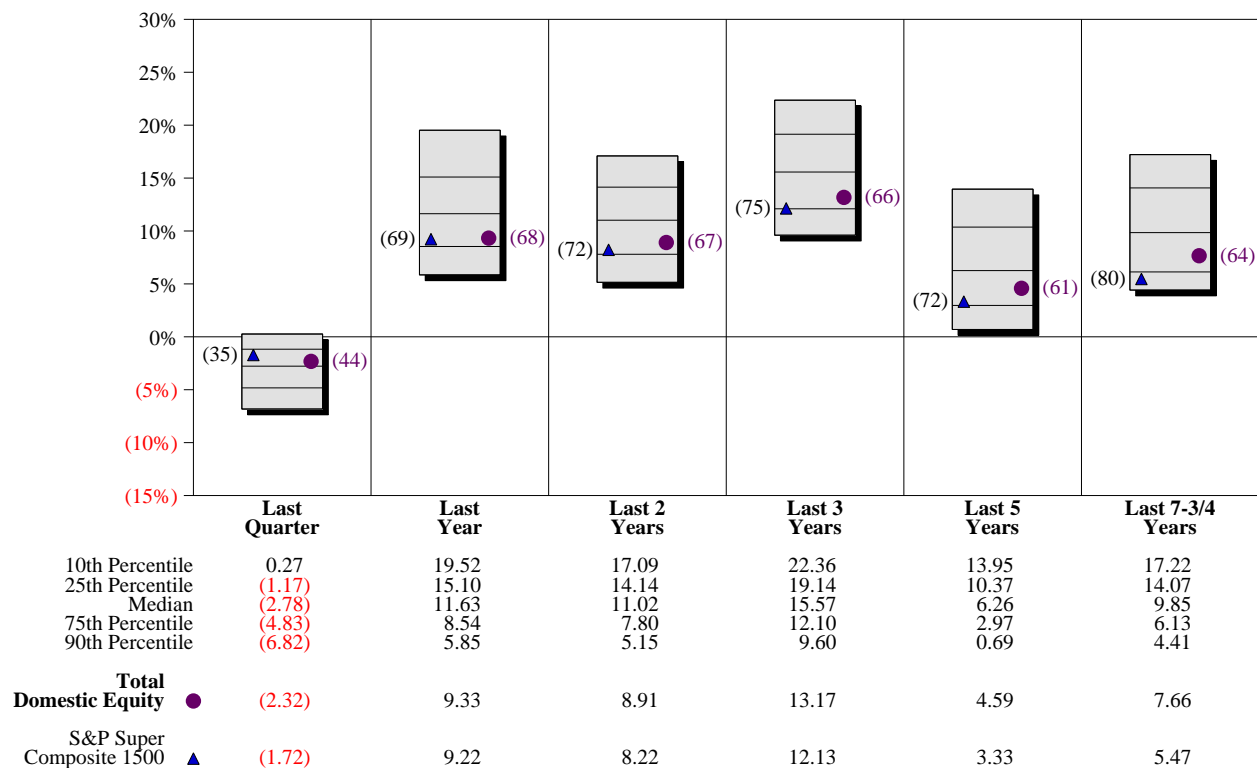
## Investment Philosophy

The Total Equity Database is a broad collection of actively managed separate account domestic equity products. Equity funds concentrate their investments in common stocks and convertible securities. Funds included maintain well-diversified portfolios.

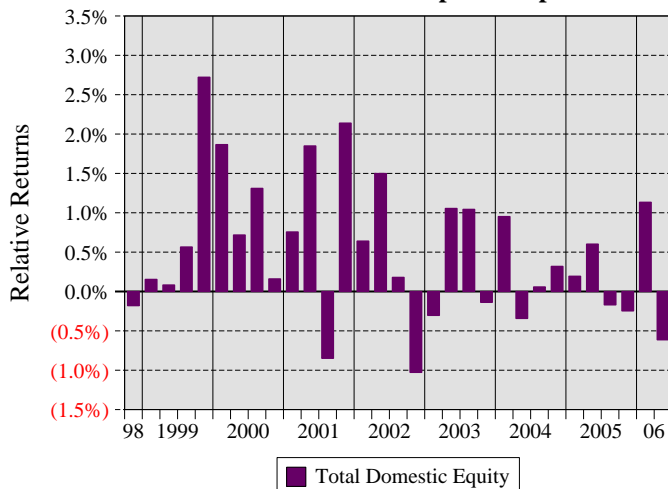
## Quarterly Summary and Highlights

- Total Domestic Equity's portfolio posted a (2.32)% return for the quarter placing it in the 44 percentile of the CAI Total Domestic Equity Database group for the quarter and in the 68 percentile for the last year.
- Total Domestic Equity's portfolio underperformed the S&P Super Composite 1500 by 0.60% for the quarter and outperformed the S&P Super Composite 1500 for the year by 0.10%.

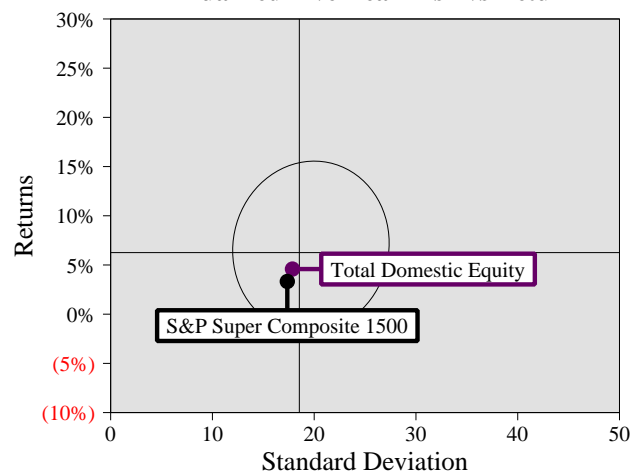
## Performance vs CAI Total Domestic Equity Database



## Relative Return vs S&P Super Composite 1500



## CAI Total Domestic Equity Database Annualized Five Year Risk vs Return



# TOTAL FIXED-INCOME PERIOD ENDED JUNE 30, 2006



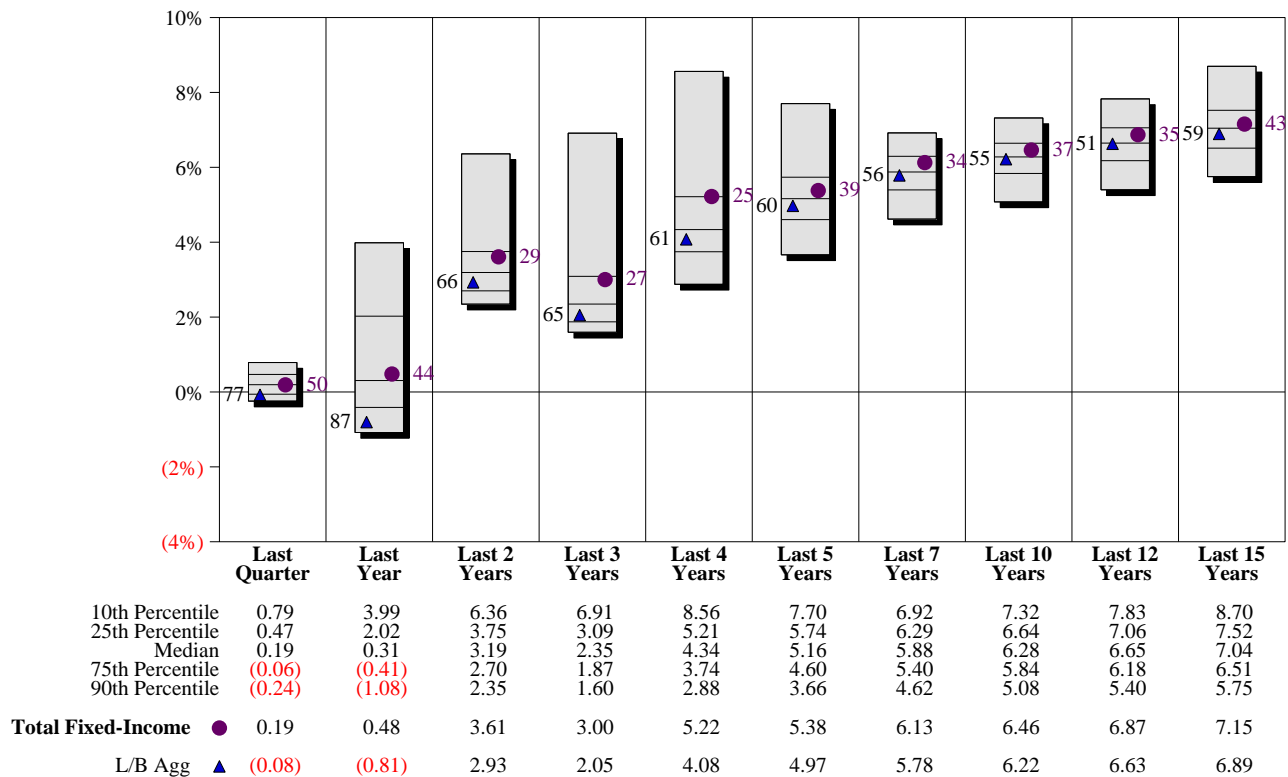
## Investment Philosophy

The Total Fixed-Income Database is a broad collection of separate account domestic fixed-income products. Fixed-Income funds concentrate their investments in bonds, preferred stocks, and money market securities.

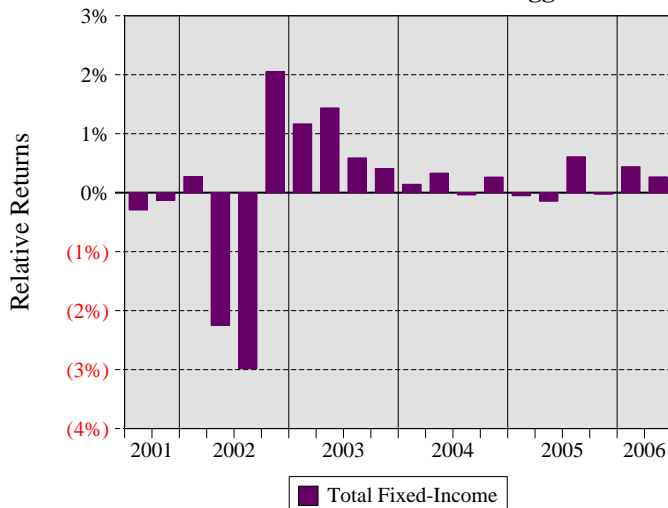
## Quarterly Summary and Highlights

- Total Fixed-Income's portfolio posted a 0.19% return for the quarter placing it in the 50 percentile of the CAI Total Domestic Fixed-Inc Database group for the quarter and in the 44 percentile for the last year.
- Total Fixed-Income's portfolio outperformed the L/B Agg by 0.27% for the quarter and outperformed the L/B Agg for the year by 1.28%.

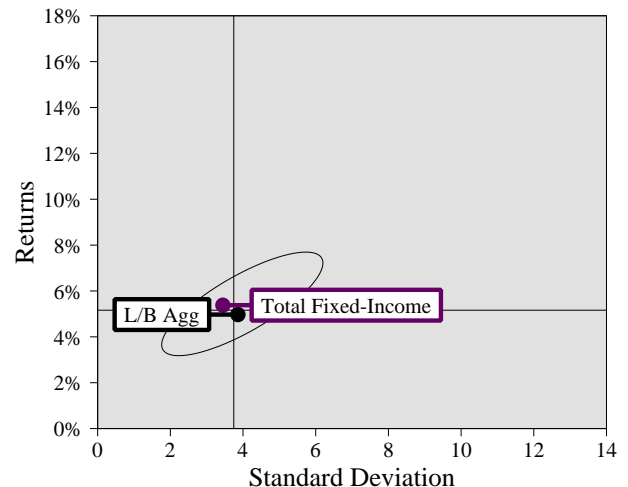
## Performance vs CAI Total Domestic Fixed-Inc Database



## Relative Return vs L/B Agg



## CAI Total Domestic Fixed-Inc Database Annualized Five Year Risk vs Return



## Investment Manager Returns

The table below details the rates of return for the Sponsor's investment managers over various time periods ended June 30, 2006. Negative returns are shown in red, positive returns in black. Returns for one year or greater are annualized. The first set of returns for each asset class represents the composite returns for all the fund's accounts for that asset class.

### Returns for Periods Ended June 30, 2006

	Market Value \$(Dollars)	Ending Weight	Last Quarter	Last Year	Last 3 Years	Last 5 Years	Last 7-3/4 Years
<b>Domestic Equity</b>	<b>\$3,051,293,283</b>	<b>39.44%</b>	<b>(2.32%)</b>	<b>9.33%</b>	<b>13.17%</b>	<b>4.59%</b>	<b>7.66%</b>
<b>Large Cap Equity</b>	<b>\$2,033,903,611</b>	<b>26.29%</b>	<b>(1.45%)</b>	<b>8.70%</b>	<b>11.49%</b>	<b>2.91%</b>	<b>4.85%</b>
<b>Passive</b>	<b>\$1,087,436,826</b>	<b>14.06%</b>	<b>(1.23%)</b>	<b>8.96%</b>	<b>11.55%</b>	<b>2.71%</b>	-
BGI (Equity Index)	696,011,313	9.00%	(1.47%)	8.61%	11.21%	2.51%	4.53%
Rhumblin Advisors	391,413,459	5.06%	(1.42%)	8.70%	11.26%	2.60%	-
BGI (Russell 3000)	12,054	0.00%	0.00%	10.90%	-	-	-
Standard & Poor's 500	-	-	(1.44%)	8.63%	11.22%	2.49%	4.52%
Russell 3000 Index	-	-	(1.98%)	9.56%	12.56%	3.53%	5.52%
<b>Enhanced</b>	<b>\$564,745,344</b>	<b>7.30%</b>	<b>(1.45%)</b>	<b>8.50%</b>	<b>11.39%</b>	<b>3.12%</b>	-
PIMCO	564,745,344	7.30%	(1.45%)	8.50%	11.39%	3.40%	4.36%
Standard & Poor's 500	-	-	(1.44%)	8.63%	11.22%	2.49%	4.52%
<b>Growth</b>	<b>\$181,871,648</b>	<b>2.35%</b>	<b>(4.39%)</b>	<b>4.89%</b>	<b>8.78%</b>	<b>0.94%</b>	-
INTECH	124,878,714	1.61%	(4.46%)	7.28%	12.54%	6.92%	-
H-S&Y	56,992,934	0.74%	(4.24%)	0.00%	6.32%	(1.66%)	-
S&P 500 Growth	-	-	(3.46%)	4.84%	7.29%	0.59%	1.71%
<b>Value</b>	<b>\$199,849,793</b>	<b>2.58%</b>	<b>(0.07%)</b>	<b>11.22%</b>	<b>14.01%</b>	<b>5.98%</b>	-
Earnest	72,465,800	0.94%	(0.20%)	12.61%	17.60%	6.56%	-
ICAP	64,282,648	0.83%	0.02%	15.59%	15.58%	5.76%	-
Barrow Hanley	63,101,345	0.82%	(0.01%)	-	-	-	-
S&P 500 Value	-	-	0.61%	12.62%	15.25%	4.24%	6.98%
<b>Mid Cap Equity</b>	<b>\$214,307,233</b>	<b>2.77%</b>	<b>(2.88%)</b>	<b>11.68%</b>	<b>18.46%</b>	<b>7.59%</b>	-
Franklin Portfolio Assoc.	214,307,233	2.77%	(2.88%)	11.68%	19.11%	11.31%	-
S&P 400 Mid Cap	-	-	(3.14%)	12.97%	18.14%	9.30%	13.79%
<b>Small Cap Equity</b>	<b>\$803,082,439</b>	<b>10.38%</b>	<b>(4.50%)</b>	<b>10.62%</b>	<b>17.16%</b>	<b>8.85%</b>	<b>15.01%</b>
<b>Growth</b>	<b>\$414,057,021</b>	<b>5.35%</b>	<b>(6.05%)</b>	<b>16.46%</b>	<b>16.17%</b>	<b>1.43%</b>	-
Aeltus Capital Management	209,598,282	2.71%	(8.10%)	17.11%	16.18%	5.35%	8.26%
Wells	204,458,739	2.64%	(3.85%)	-	-	-	-
Russell 2000 Growth	-	-	(7.25%)	14.58%	16.27%	3.49%	6.50%
<b>Value</b>	<b>\$389,025,418</b>	<b>5.03%</b>	<b>(2.79%)</b>	<b>5.44%</b>	<b>16.87%</b>	<b>12.70%</b>	-
Ariel Capital Management	189,503,881	2.45%	(4.25%)	4.39%	15.55%	11.65%	13.31%
Brandywine Asset Management	199,521,537	2.58%	(1.36%)	6.55%	18.41%	14.07%	14.35%
Russell 2000 Value	-	-	(2.70%)	14.61%	21.01%	13.09%	13.95%
<b>International Equity</b>	<b>\$1,068,471,789</b>	<b>13.81%</b>	<b>(0.93%)</b>	<b>28.19%</b>	<b>22.93%</b>	<b>8.52%</b>	<b>8.29%</b>
Alliance Capital Management	60,686	0.00%	-	-	-	-	-
Bank of Ireland	33,592	0.00%	-	-	-	-	-
Alliance Bernstein	195,051,328	2.52%	0.32%	35.50%	-	-	-
Fisher	146,278,345	1.89%	(3.50%)	28.76%	-	-	-
Gryphon	185,253,377	2.39%	(2.63%)	16.33%	-	-	-
Manning & Napier	40,189,500	0.52%	(0.07%)	26.33%	-	-	-
State Street	504,604,961	6.52%	(0.04%)	30.02%	-	-	-
International Benchmark*	-	-	0.21%	28.40%	24.54%	10.34%	8.16%
<b>Alternative Investment</b>	<b>\$127,170,031</b>	<b>1.64%</b>	<b>9.24%</b>	<b>23.11%</b>	<b>17.35%</b>	-	-
Portfolio Advisors	127,170,031	1.64%	9.24%	23.11%	17.35%	-	-
Post Venture Cap Index	-	-	(7.16%)	11.25%	14.24%	(0.10%)	3.32%
<b>Composite Fund</b>	<b>\$7,736,407,976</b>	<b>100.00%</b>	<b>(0.87%)</b>	<b>8.30%</b>	<b>9.57%</b>	<b>6.35%</b>	<b>6.64%</b>

\*International Benchmark is MSCI EAFE through June 30, 2005 and MSCI ACWI ex US thereafter.

Indiana State Teachers' Retirement Fund

## Investment Manager Returns

The table below details the rates of return for the Sponsor's investment managers over various time periods ended June 30, 2006. Negative returns are shown in red, positive returns in black. Returns for one year or greater are annualized. The first set of returns for each asset class represents the composite returns for all the fund's accounts for that asset class.

### Returns for Periods Ended June 30, 2006

	Market Value \$(Dollars)	Ending Weight	Last Quarter	Last Year	Last 2 Years	Last 3 Years	Last 4 Years
<b>Domestic Fixed-Income</b>	<b>\$3,124,652,918</b>	<b>40.39%</b>	<b>0.19%</b>	<b>0.48%</b>	<b>3.61%</b>	<b>3.00%</b>	<b>5.22%</b>
Alliance Capital Mgmt.	1,372,736,465	17.74%	0.01%	(0.04%)	3.25%	2.57%	5.22%
Reams Asset Management	1,372,932,920	17.75%	0.17%	0.33%	3.74%	3.24%	5.17%
Taplin, Canida & Habacht	304,192,193	3.93%	0.07%	1.11%	3.22%	3.29%	5.98%
Lehman Brothers Agg.	-	-	(0.08%)	(0.81%)	2.93%	2.05%	4.08%
<b>Absolute Return</b>	<b>\$212,284,268</b>	<b>2.74%</b>	<b>1.63%</b>	-	-	-	-
Bridgewater	106,555,227	1.38%	3.26%	-	-	-	-
GMO	105,729,041	1.37%	0.04%	-	-	-	-
<b>Real Estate</b>	<b>\$152,535,687</b>	<b>1.97%</b>	<b>1.29%</b>	-	-	-	-
TA Associates	30,804,070	0.40%	1.01%	-	-	-	-
RREEF	121,731,617	1.57%	1.37%	-	-	-	-
Cash Flow Account	74,791,340	0.97%	3.82%	10.62%	10.48%	8.88%	7.31%
Treasury Bills	-	-	1.16%	3.98%	3.06%	2.37%	2.15%
<b>Composite Fund</b>	<b>\$7,736,407,976</b>	<b>100.00%</b>	<b>(0.87%)</b>	<b>8.30%</b>	<b>8.47%</b>	<b>9.57%</b>	<b>8.71%</b>
Standard & Poor's 500	-	-	(1.44%)	8.63%	7.47%	11.22%	8.37%
Domestic Equity Database	-	-	(3.09%)	12.29%	10.97%	15.53%	11.53%
Domestic Fixed Database	-	-	0.20%	0.90%	3.72%	3.11%	5.04%

### Investment Manager Returns

The table below details the rates of return for the Sponsor's investment managers over various time periods ended June 30, 2006. Negative returns are shown in red, positive returns in black. Returns for one year or greater are annualized. The first set of returns for each asset class represents the composite returns for all the fund's accounts for that asset class.

#### Returns for Periods Ended June 30, 2006

	<b>Market Value \$(Dollars)</b>	<b>Ending Weight</b>	<b>Last 5 Years</b>	<b>Last 7 Years</b>	<b>Last 10 Years</b>	<b>Last 12 Years</b>	<b>Last 15 Years</b>
<b>Domestic Fixed-Income</b>	<b>\$3,124,652,918</b>	<b>40.39%</b>	<b>5.38%</b>	<b>6.13%</b>	<b>6.46%</b>	<b>6.87%</b>	<b>7.15%</b>
Alliance Capital Mgmt	1,372,736,465	17.74%	5.55%	6.21%	6.89%	7.47%	8.08%
Reams Asset Mgmt	1,372,932,920	17.75%	4.91%	6.18%	6.77%	7.20%	-
Taplin, Canida & Habacht	304,192,193	3.93%	6.36%	6.23%	6.64%	6.96%	-
Lehman Brothers Aggregate	-	-	4.97%	5.78%	6.22%	6.63%	6.89%
Cash Flow Account	74,791,340	0.97%	6.26%	5.93%	5.70%	5.77%	5.56%
Treasury Bills	-	-	2.25%	3.23%	3.81%	4.07%	4.00%
<b>Composite Fund</b>	<b>\$7,736,407,976</b>	<b>100.00%</b>	<b>6.35%</b>	<b>6.06%</b>	<b>7.32%</b>	<b>7.58%</b>	<b>7.73%</b>
Lehman Brothers Aggregate	-	-	4.97%	5.78%	6.22%	6.63%	6.89%
Total Fixed-Income Database	-	-	5.43%	5.91%	6.32%	6.69%	7.12%
Core Bond Fixed-Inc. Style	-	-	5.12%	5.91%	6.34%	6.73%	7.11%



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# Investment Benchmarks

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**Defined Benefit Investment  
Cost Effectiveness Analysis**  
(for the 5 years ending December 31, 2005)

**Indiana State Teachers' Retirement Fund**

Prepared July 24, 2006 by:



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## This benchmarking report compares your cost and return performance to CEM's extensive pension performance database.

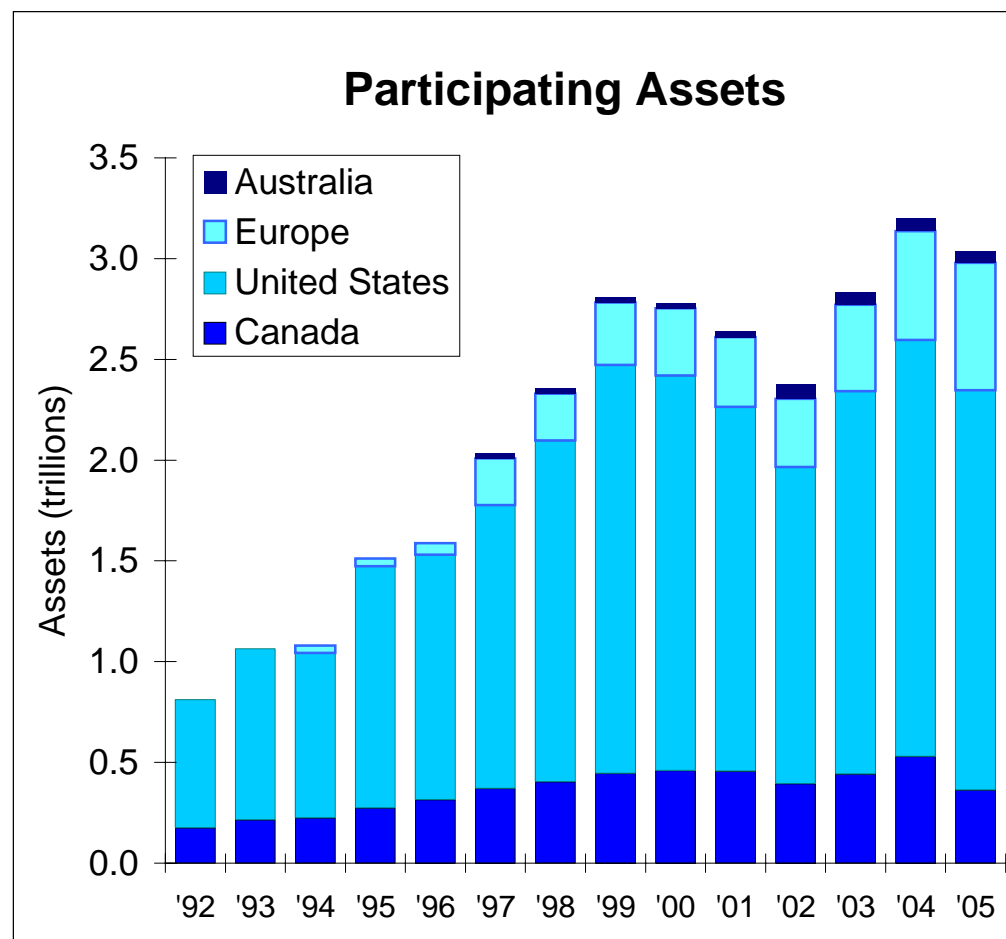
- 136 U.S. pension funds participate. They represent 30% of U.S. defined benefit assets. The median U.S. fund had assets of \$4.7 billion, while the average U.S. fund had assets of \$14.6 billion. Total participating U.S. assets were \$2.0 trillion.

- 92 Canadian funds participate representing 70% of Canadian defined benefit assets.

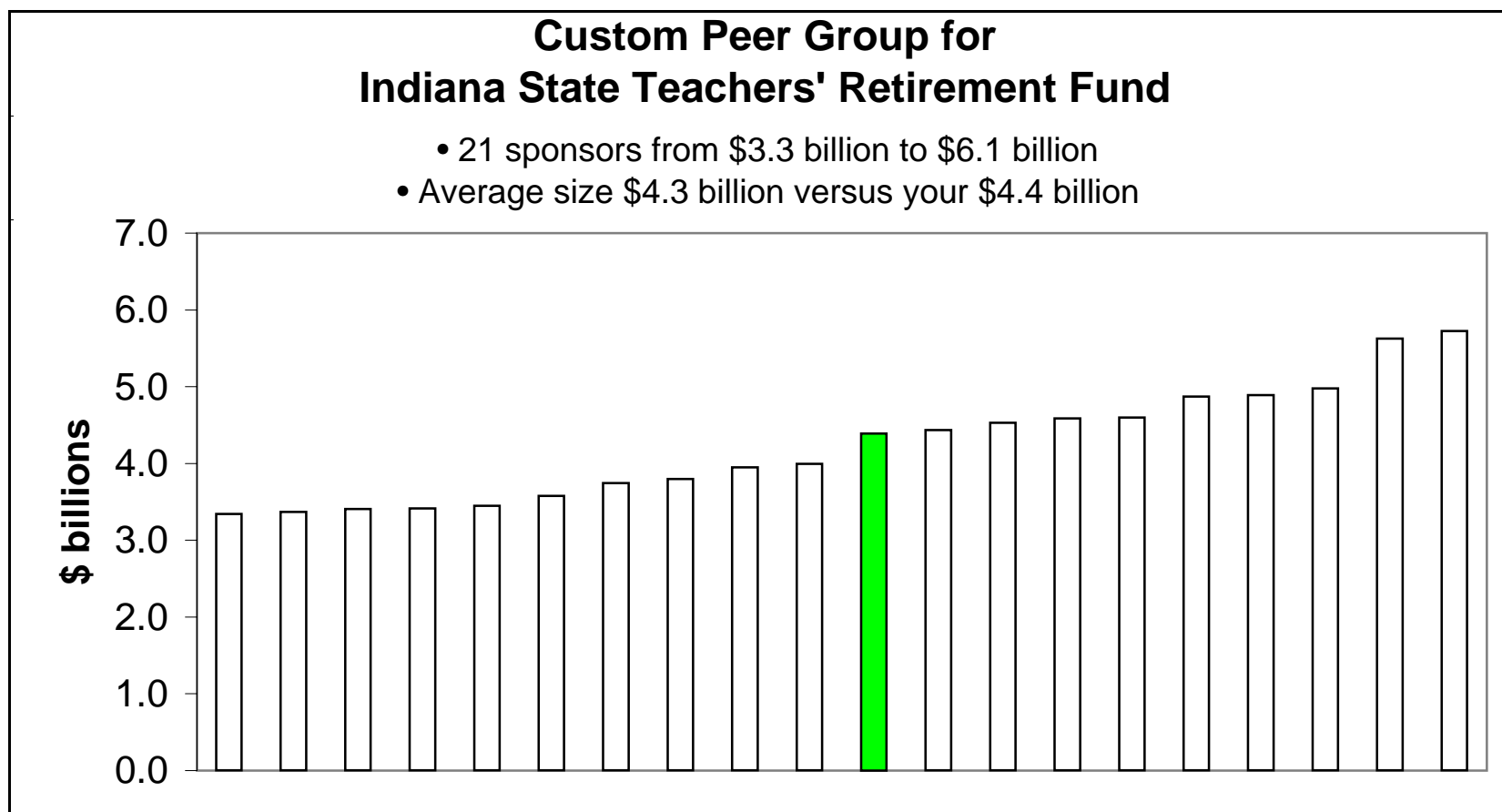
- 19 European funds participate with aggregate assets of €633 billion. Included are funds from The Netherlands, Norway, Sweden, Finland, France and Ireland.

- 5 Australian funds participate with aggregate assets of A\$57.0 billion.

The most meaningful comparisons for your returns and value added are to the U.S. Universe.



**The most valuable comparisons for cost performance are to your custom peer group because size impacts costs.**



In order to preserve client confidentiality, we do not disclose your peers' names in this document because of the Freedom of Information Act.

# What gets measured gets managed, so it is critical that you measure and compare the right things:

## 1. Policy Return

How did the impact of your policy asset mix decision compare to other funds?

## 2. Implementation Value Added

Are your implementation decisions (i.e., mostly active management) adding value?

## 3. Implementation Risk

How much risk was taken to obtain your Implementation Value Added?

## 4. Costs

Are your costs reasonable?  
Costs matter and can be managed.

## 5. Cost Effectiveness

Net Implementation Value Added versus Excess Cost.  
Does paying more get you more?

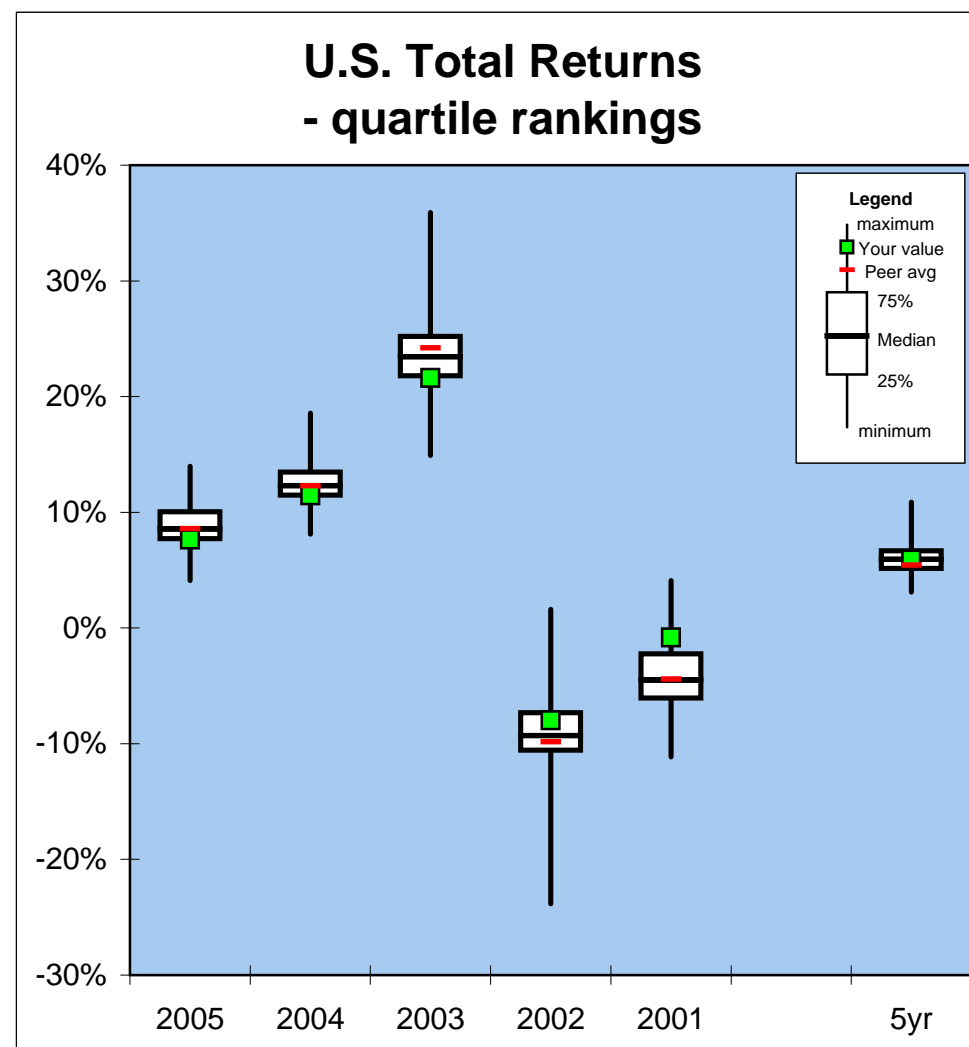
## Total Returns, by themselves, are the wrong thing to compare and focus on.

Total Returns do not tell you the reasons behind good or bad relative performance.

Therefore, we separate Total Return into its more meaningful components - Policy Return and Implementation Value Added.

	Your 5-yr
Total Fund Return	5.9%
Policy Return	6.4%
Implementation Value Added	-0.5%

This approach enables you to understand the contribution from both policy asset mix decisions (which tend to be the Board's responsibility) and implementation decisions (which tend to be management's responsibility).



## 1. Policy Returns

# Your 5-year Policy Return of 6.4% was above the U.S. median of 5.2%.

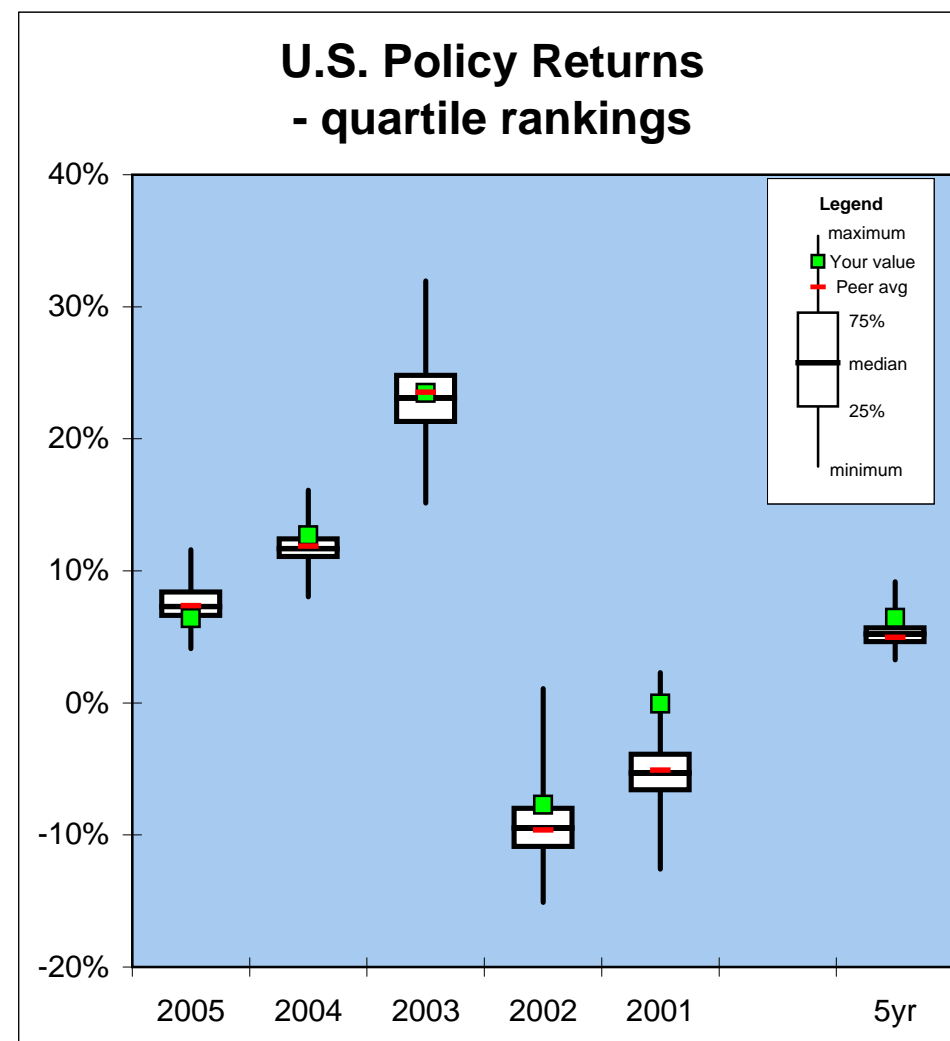
Your Policy Return is the return you could have earned passively by indexing your investments according to your investment policy asset mix.

Having a higher or lower relative Policy Return is not necessarily good or bad. This is because your policy return reflects your investment policy, which should reflect your:

- Long term capital market expectations
- Liabilities
- Appetite for risk

Each of these three factors is different across funds. Therefore, it is not surprising that Policy Returns often vary widely between funds.

The median 5-year Policy Return of your Peers was 5.2%.



1. Why does your Policy Return differ from average?

## Your 5-year Policy Return was above the U.S. median primarily because of:

- The positive impact of your lower weight in the worst performing asset class of the past 5 years: Large Cap & Broad Mkt US Stock (your 29% 5-yr avg weight versus a US average of 40%).
- The positive impact of your higher weights in two of the better performing asset classes of the past 5 years: Fixed Income (your 36% 5-yr avg weight versus a US average of 29%) and Small Cap Stock (your 11% 5-yr avg weight versus a US average of 5%).

5-year Average Policy Asset Mix			
<i>Asset Class</i>	<i>Your Fund</i>	<i>Peer Avg</i>	<i>US Avg</i>
Large Cap & Broad Mkt US Stock *	29%	41%	40%
Small Cap Stock	11%	5%	5%
EAFE and Global	15%	16%	15%
Emerging Mkt Stocks	<u>0%</u>	<u>1%</u>	<u>1%</u>
Total Stocks	55%	63%	61%
Fixed Income	36%	29%	29%
Inflation Indexed Bonds	0%	0%	1%
Cash	<u>0%</u>	<u>0%</u>	<u>1%</u>
Total Fixed Income	36%	30%	30%
Real Estate & REITS	5%	5%	4%
Hedge Funds	0%	0%	1%
Private Equity	4%	2%	3%
Total	100%	100%	100%

\* Your 2% 5-yr-avg weight for TAA is included with US Stocks

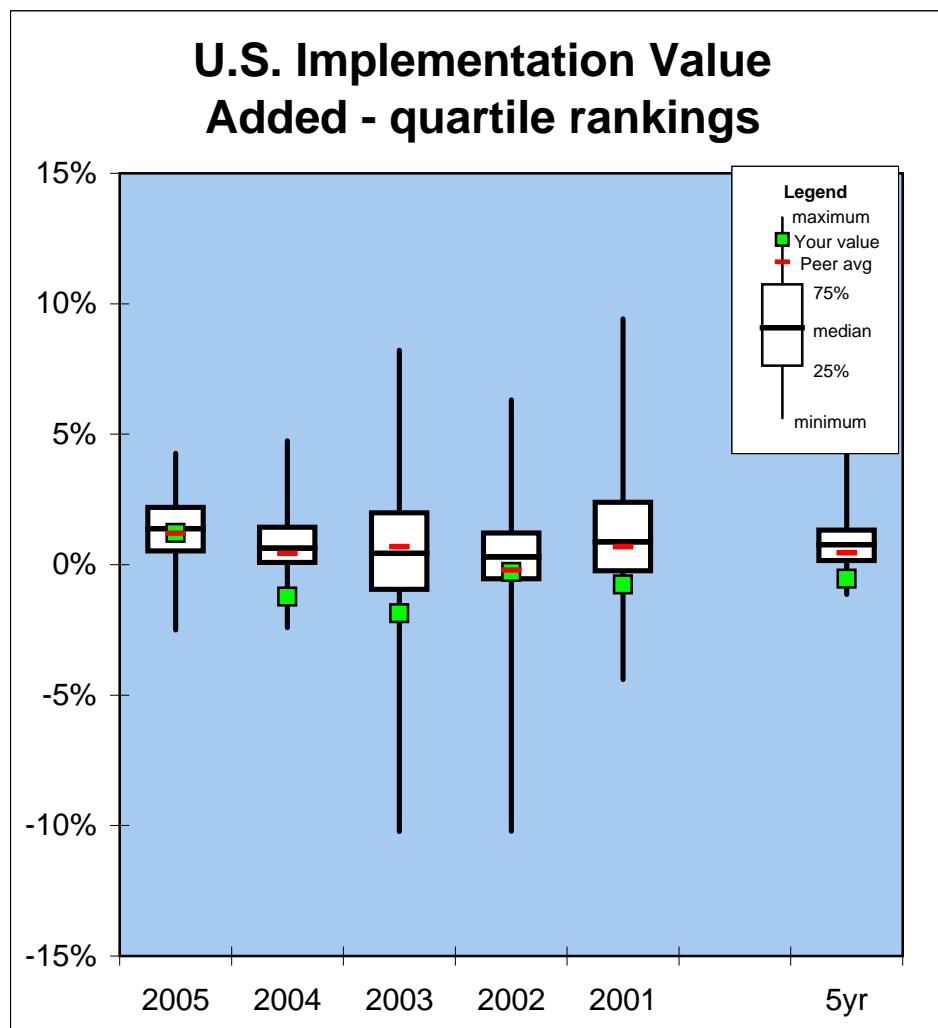


## 2. Implementation Value Added

**Implementation Value Added is the component of your Total Return from active management. Your 5-yr Implementation Value Added was -0.5%.**

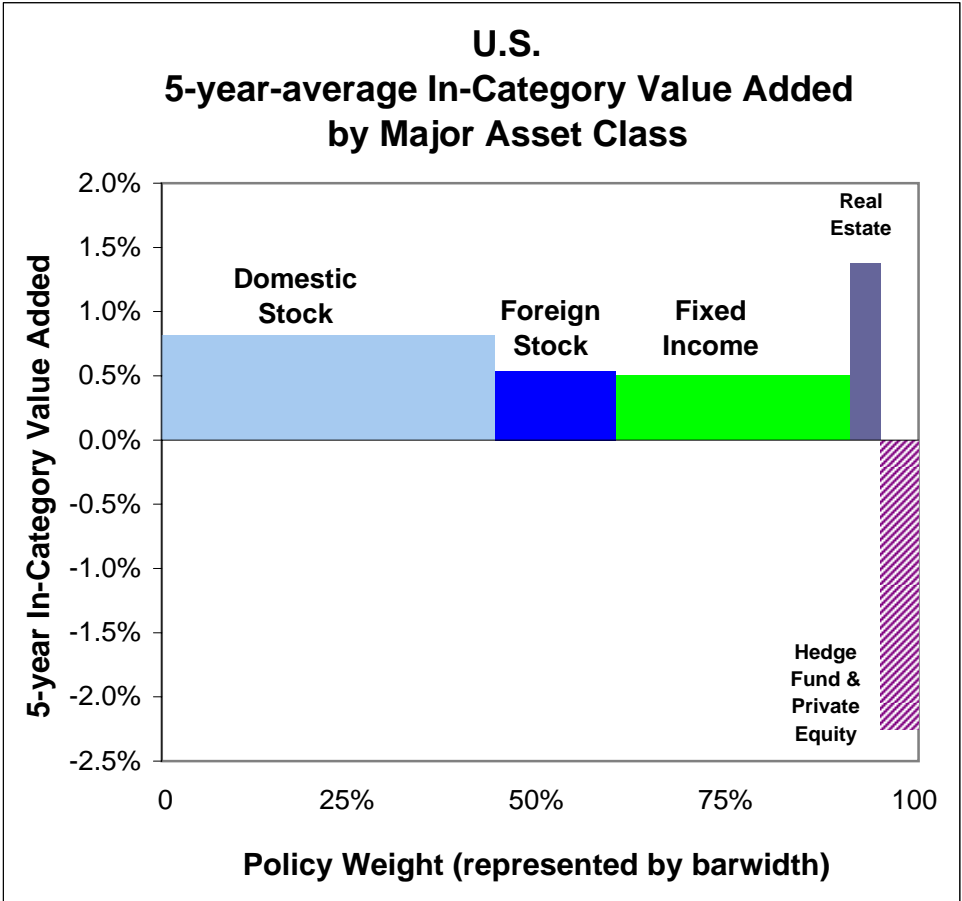
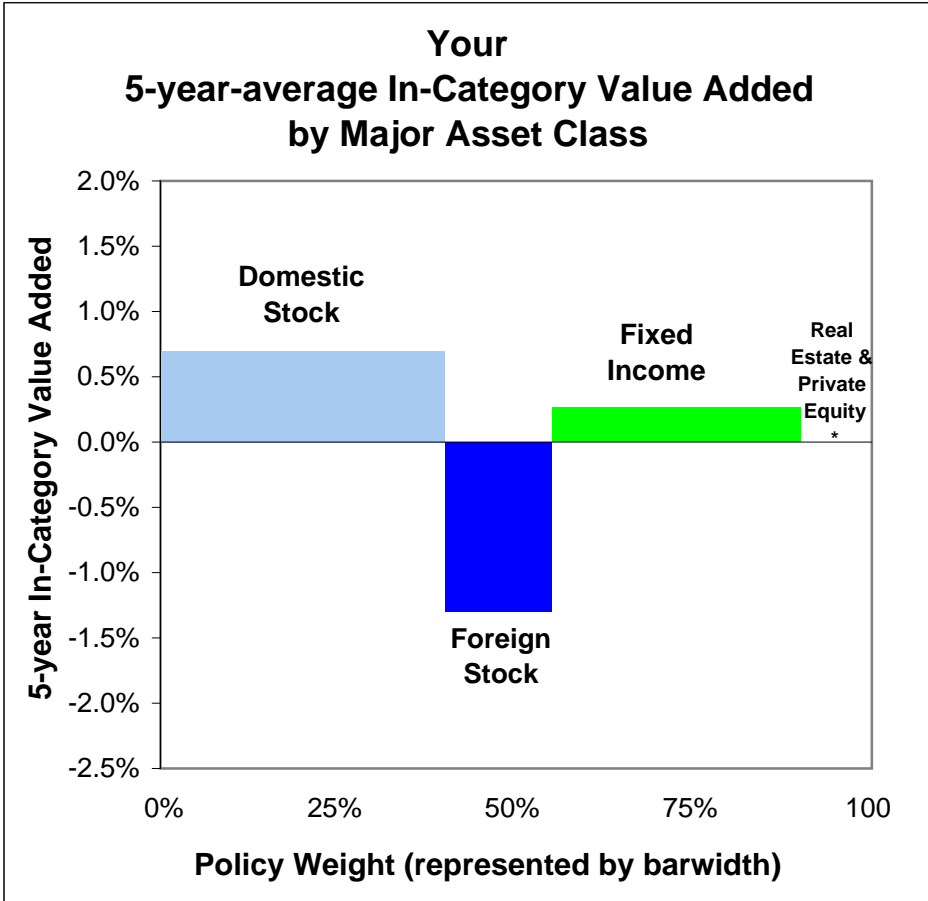
- Your -0.5% compares to a 5-yr U.S. median of 0.8% and a peer median of 0.2%.
- Implementation value added equals your actual return minus your policy return. Implementation value added can be further broken down into value added from "In-Category" decisions (i.e., actual returns in each asset category minus benchmarks) and value added from "Mix" (i.e., value added resulting from differences between your actual versus your policy asset mix).

Year	Actual Return	Policy Return	Implementation Value Added		
			Total	In-Category	Mix
2005	7.6%	6.4%	1.2%	1.4%	-0.2%
2004	11.5%	12.7%	-1.2%	-0.2%	-1.0%
2003	21.6%	23.5%	-1.9%	-1.5%	-0.4%
2002	-8.0%	-7.7%	-0.3%	-1.6%	1.4%
2001	-0.8%	-0.1%	-0.8%	0.6%	-1.4%
5-yr	5.9%	6.4%	-0.5%	-0.3%	-0.2%



2. Implementation  
Value Added  
(In-category by Asset  
Class)

You had positive 5-year In-Category Value Added in Domestic Stock and Fixed Income.



\* Your policy weight for Real Estate has been 5% but your holdings until 2005 were 0 and thus your value added was 0%. Your policy weight for Private Equity has been 5% since 2002. We have not shown its value added in this chart because it has been in a start-up phase.

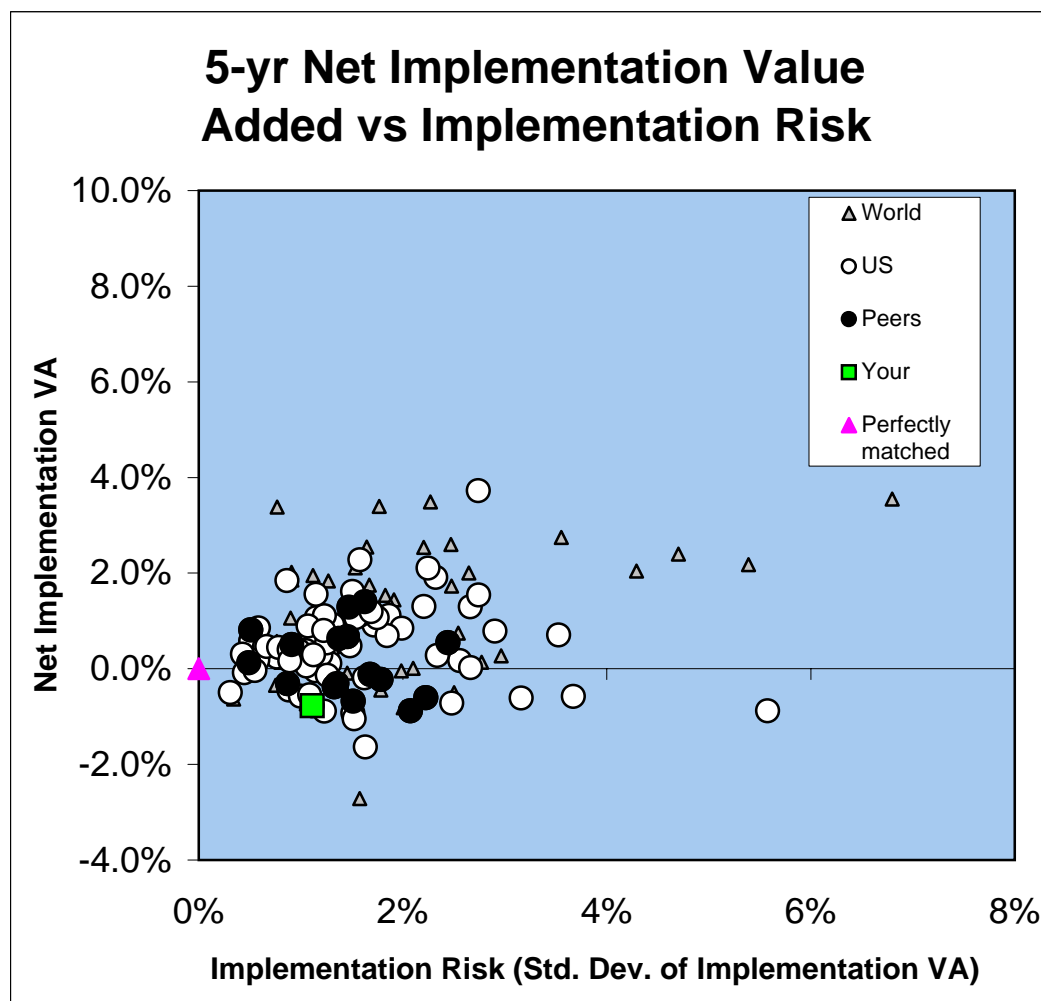
### 3. Implementation Risk

**Your 5-yr Implementation Risk of 1.1% was slightly below the U.S. median of 1.3%.**

"Implementation Risk" is the risk of active management. CEM defines Implementation Risk as the standard deviation of your Net Implementation Value Added.

Net Implementation Value Added equals gross Implementation Value Added minus asset management costs. Your 5-year Net Implementation Value Added was -0.8% (-0.5% gross minus 0.2% costs).

There was a positive relationship between Implementation Risk and Value Added over the past 5 years. On average, funds that took more Implementation Risk earned more Implementation Value Added.



**4. Costs  
(Total)**

## Your asset management costs (including Oversight) in 2005 were \$14.3 million or 33.7 basis points.

- CEM collects investment costs by major asset classes and 4 different implementation styles.
- Oversight, Custodial & Other cost includes all costs associated with the oversight and administration of the investment operation, regardless of how these costs are paid. Costs pertaining to benefit administration, such as preparing checks for retirees, are specifically excluded.

\* You were not able to provide your costs for real estate so for purposes of this report we have set your cost equal to the peer median cost of 90bps.

\*\* You were not able to provide the underlying partnership costs for the fund of fund Venture Capital. For comparison purposes in this report we have used our default cost of 200bps or \$3.8M.

<b>Your Investment Management Costs (\$000s)</b>				
	<u>Internal</u>		<u>External</u>	
	Passive	Active	Passive	Active
US Stock - Large Cap			316	2,150
US Stock - Small Cap				2,414
Stock - EAFE				3,076
Fixed Income - US				730
Real Estate ex-REITs*				53
TAA				413
Venture Capital/LBO - Fund of Funds (incl. underlying fees)**				4,422
Overlay Programs				0
Total Investment Management Costs				32.0bp
				13,573

<b>Your Oversight, Custodial and Other Asset Related Costs (\$000s)</b>		
Oversight of the Fund		325
Trustee & Custodial		59
Consulting and Performance Measurement		321
Audit		
Other		36
Total Oversight, Custodial & Other Costs	1.7bp	741

<b>Total Asset Management Costs in \$000s</b>	<b>33.7bp</b>	<b>14,314</b>
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**4. Costs**  
- Are they high or low?

## Benchmark Cost analysis suggests that your fund was low cost by -2.8 basis points.

To assess your cost performance, we start by calculating your Benchmark Cost. Your Benchmark Cost is an estimate of what your cost would be given your asset mix and the median costs that your peers pay for similar services.

	in \$000's	basis points
Your Fund's Total Cost	14,314	33.7 bp
Your Fund's Benchmark Cost	<u>15,496</u>	<u>36.5 bp</u>
Your Fund's Excess Cost	-1,182	-2.8 bp

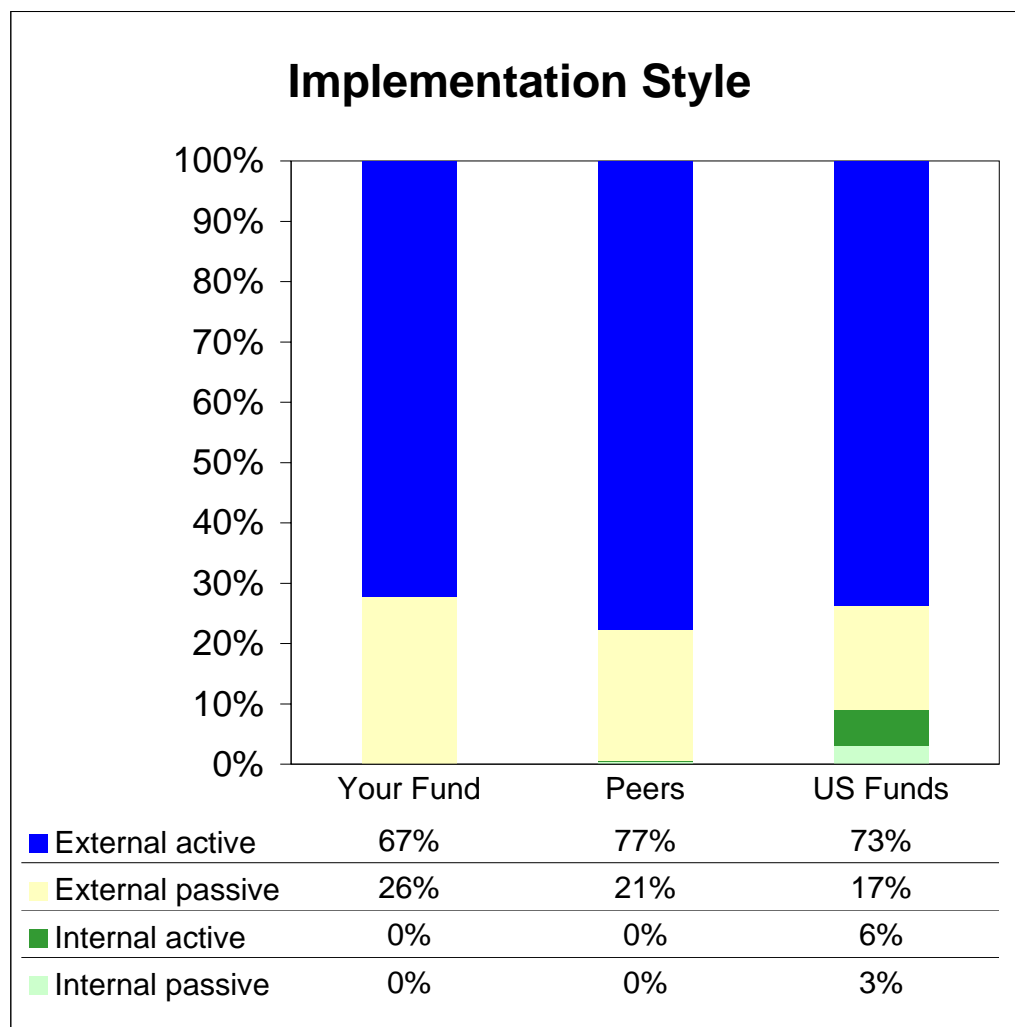
Your Total Cost of 33.7 bp was close to your Benchmark Cost of 36.5 bp. Thus, your fund's Excess Cost was -2.8 bp, suggesting that your fund was low cost by this amount.

The following pages review reasons behind your normal cost status.

#### 4. Costs Is it Style?

**Your fund used less external active management than your peers (67% versus 77% for your peers).**

- External active management is much more expensive than internal management, or external passive management.



**4. Costs -  
Impact of Style**

**Your lower use of external active management in US stock saved you money. But this benefit was more than offset by your 100% use of fund of funds to invest in Venture Capital/LBO.**

Impact of Differences in Use of External Active Management					
	Average Holdings \$ M	External Active			Dollar Impact \$000
		Holdings % of asset class		Cost	
		Your%	Peer Avg%	Premium <sup>1,2</sup>	
US Stock - Large Cap	1,725	36.9%	60.2%	31.7	-1,271
US Stock - Small Cap	547	100.0%	81.8%	57.4	572
Stock - EAFE	571	100.0%	86.6%	36.7	280
Fixed Income - US	903	100.0%	89.8%	16.9	156
TAA	101	100.0%	100.0%	N/A	
Real Estate ex-REITs	6	100.0%	100.0%	N/A	
Venture Capital/LBO	191	0.0%	49.7%	N/A	
Fund of Funds <sup>4</sup>		{ 100.0%	50.3%	193.7	1,840
Total		66.8%	76.7%		1,579
External Active Impact in bps					3.7 bp
Impact of differences in the cost and use of lower cost styles <sup>3</sup>					0.0 bp
Total Style Impact					3.7 bp

1. External Active Cost Premium is the additional cost of external active management relative to the average of other lower cost implementation styles - internal passive, internal active and external passive.

2. An external Active Cost Premium of 'N/A' Indicates that there was insufficient peer data to calculate the premium. This is most often a result of insufficient peer lower cost' implementation style data.

3. The 'Impact of differences in the cost and use of lower cost styles' quantifies the net impact of your relative use of, and the cost differences between, internal passive, internal active and external passive management.

4. External Fund of Funds is often the most expensive implementation style when all costs are considered.

**4. Costs -**  
**Are you paying more**  
**for similar services?**

## The net impact of differences in External Investment Management costs saved you 4.8 bp.

Impact of Differences in External Investment Management Costs				
	Your 2005		Peer	Impact of the
	Avg Holdings	Costs	Median	difference
	in \$mils	in bp	in bp	in \$000s
US Stock - Large Cap - Passive	1,088	2.9	1.4	159
US Stock - Large Cap - Active	637	33.7	33.1	42
US Stock - Small Cap - Active	547	44.2	62.2	-988
Stock - EAFE - Active	571	53.9	43.6	589
Fixed Income - US - Active	903	8.1	19.9	-1,064
TAA - Active	101	41.0	43.6	-26
Real Estate ex-REITs - Active*	6	90.0	90.0	0
Venture Capital/LBO - Active F. of F.	191	231.1	269.9	-743
<b>Total External Investment Management Impact in \$000s</b>				<b>-2,031</b>
<b>Total External Investment Management Impact in basis points</b>				<b>-4.8 bp</b>

\* Your real estate costs were set equal to the peer median because you were not able to provide the costs.



**4. Costs -**  
Are you paying  
more for similar  
services?

**The net impact of differences in your Oversight,  
Custodial & Other costs saved you 1.7 bp.**

<b>Impact of Differences in Oversight, Custodial &amp; Other Costs</b>				
	<b>Your 2005</b>		<b>Peer Median in bp</b>	<b>Impact of the difference in \$000s</b>
	<b>Avg Holdings in \$mils</b>	<b>Costs in bp</b>		
Oversight	4,243	0.8 bp	1.4 bp	-282
Custodial/Trustee	4,243	0.1 bp	1.0 bp	-346
Consulting/Performance Measurement	4,243	0.8 bp	0.6 bp	55
Audit	4,243	0.0 bp	0.1 bp	-53
Other	4,243	0.1 bp	0.3 bp	-104
<b>Total Impact in \$000s</b>				<b>-731</b>
<b>Total Impact in basis points</b>				<b>-1.7 bp</b>

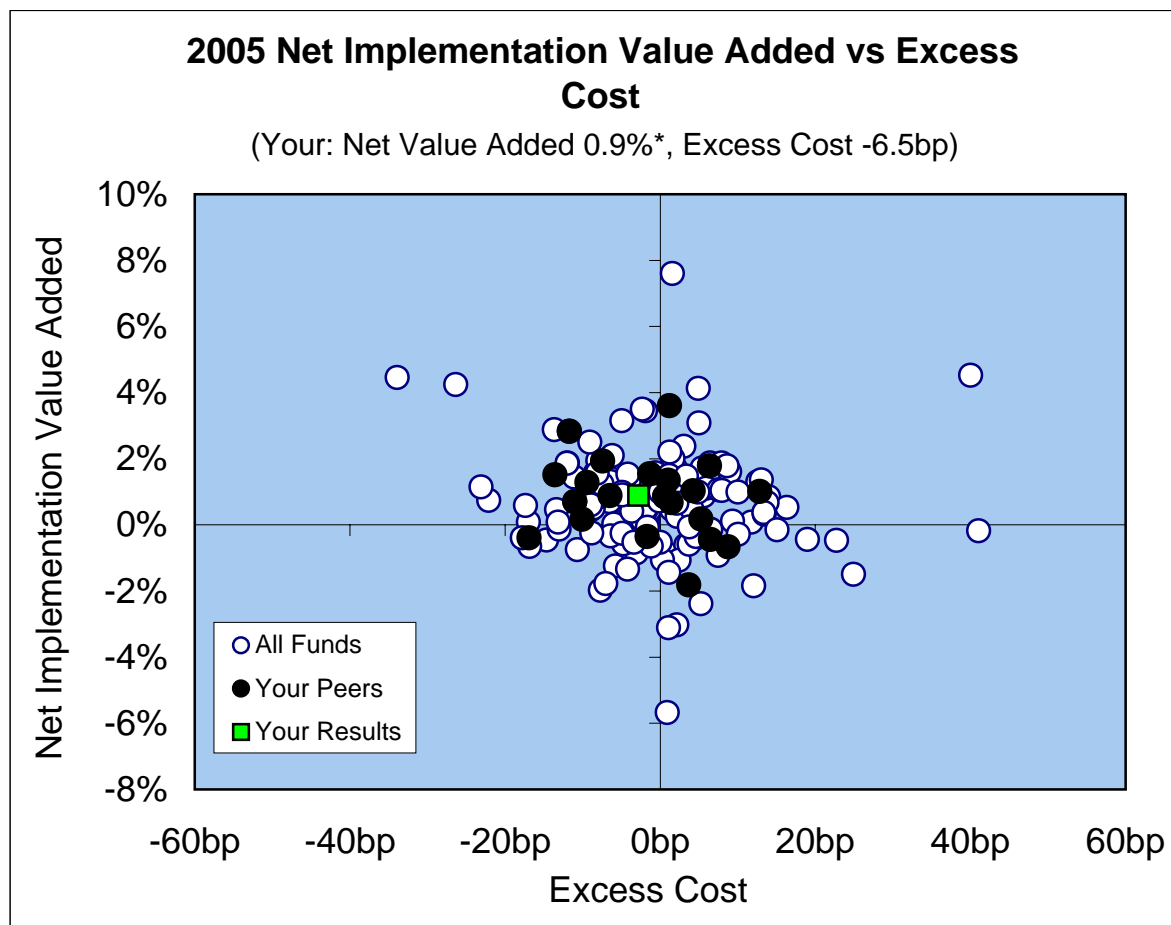
#### 4. Costs - Summary

**In summary, you were low cost by 2.8 basis points because you paid less for external active management, oversight, custodial and other costs.**

<b>Your 2005 Excess Cost Breakdown</b>		
	<i>Impact in in \$000s</i>	<i>Impact in basis points</i>
Impact of:		
Implementation Style Differences		
Less external active management and more lower cost passive and internal management	1,579	3.7
Other Style Differences	1	0.0
Paying more or less than your peers for similar services		
External Investment Management Costs	-2,031	-4.8
Oversight, Custodial & Other Costs	-731	-1.7
<b>Total Excess Cost</b>	<b>-1,182</b>	<b>-2.8</b>

5. Cost  
Effectiveness  
- 1 year

**For 2005 you had positive value added and normal cost on the Cost Effectiveness Chart.**



\* Your 2005 Net Implementation Value Added of 0.9% equals your 1.2% gross impl. value added minus your 0.3% total cost.

## 6. Asset - Liability Mismatch Risk

# The largest risk for most pension funds is caused by the mismatch between their assets and their liabilities.

In order to calculate your asset-liability mismatch risk we model your unsmoothed mark-to-market liabilities (i.e., Your Neutral Asset Mix).

Your Neutral Asset Mix is the combination of nominal and inflation indexed bonds that most closely matches your pension liabilities. It takes into account the sensitivity of your pension liabilities to changes in real and nominal interest rates. It reflects:

- Your plan type. You have a Highest 5 Year Average plan. Final Average plans provide close to 100% inflation protection for active members whereas Career Average and Flat Benefit plans provide less than 100% inflation protection to active members.
- Your pension promise in terms of post-retirement inflation protection. Your contractual inflation protection for retirees was 0%.
- The proportion of your membership that is active, deferred and retired. Older plans with more retirees have shorter durations than younger plans with more active members.

Your Neutral Asset Mix		
	Modified Duration	% of Assets
Inflation Indexed Bonds	10.0	55%
Nominal Bonds	22.2	45%
Total		100%

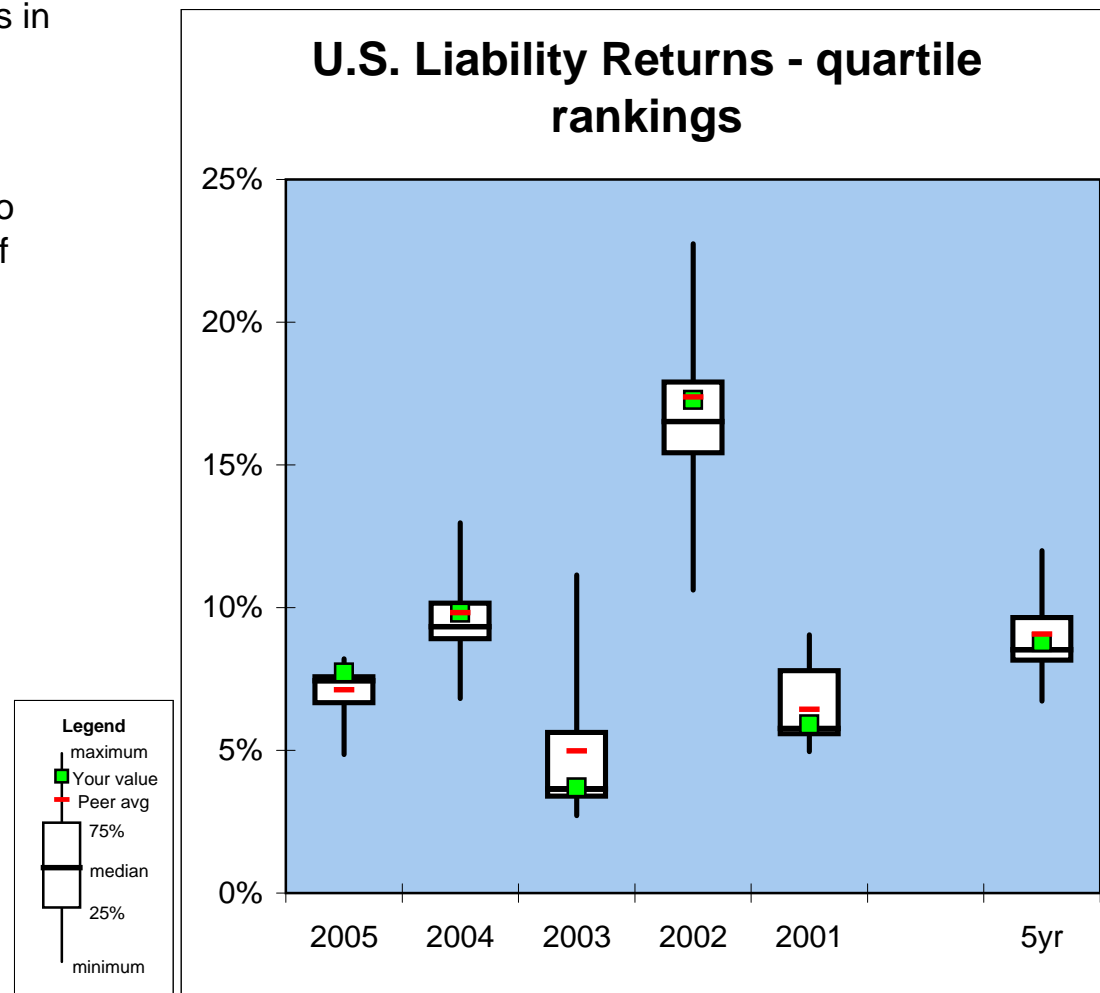
*There are two very good reasons why funds do not guarantee their pension liabilities by purchasing their neutral asset mix. First, it is impractical for large funds due to the limited supply of inflation indexed assets. Second, because this low risk strategy also has a lower expected return.*

## 6. Asset - Liability Mismatch Risk

# Mark-to-market liabilities are extremely volatile.

The change in your liabilities caused by changes in market factors is called your 'Liability Return'. It equals the return on your Neutral Asset Mix.

Your 5-year Liability Return of 8.8% compares to the peer median of 8.9% and the U.S. median of 8.5%.



## 6. Asset - Liability Mismatch Risk

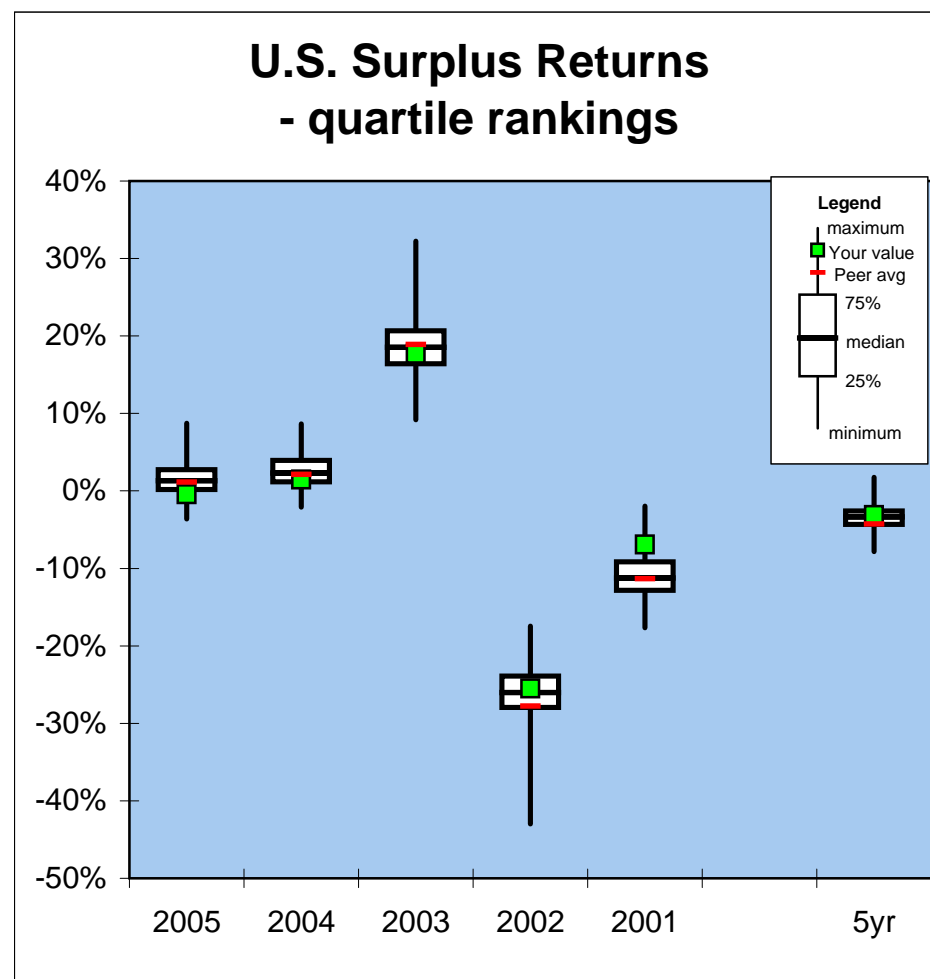
# Surplus Returns measure whether or not your assets are growing faster than your mark-to-market liabilities.

Your 5-year Surplus Return was -3.1% per annum. In other words, your mark-to-market liabilities grew 3.1% per annum faster than your assets as a result of market factors.

### Calculation of Your 5-yr Surplus Return

	<u>5-year</u>
+ Total Return	5.9%
- Change in liabilities caused by market factors ("Liability Return")	8.8%
- Costs	0.2%
= Surplus Return	-3.1%

Your -3.1% compares to a peer median of -3.9% and a U.S. median of -3.4%.



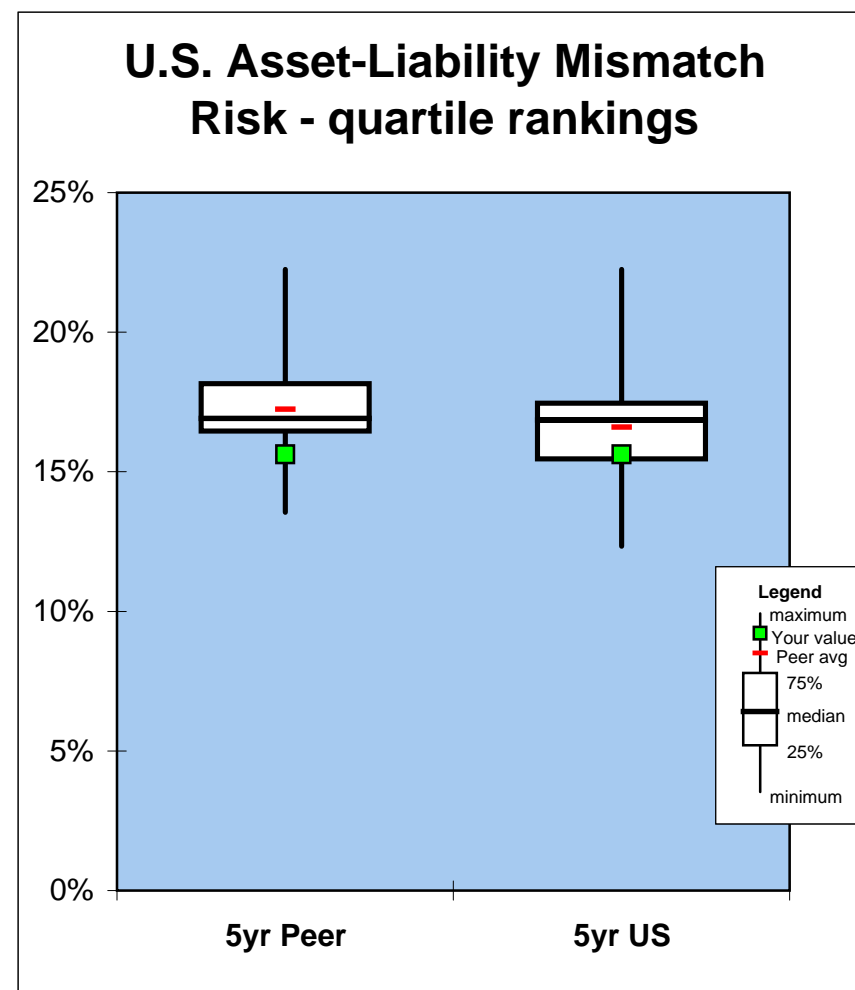
## 6. Asset - Liability Mismatch Risk

# Your Asset-Liability Mismatch Risk for the 5-years ending 2005 was 15.6%.

Risk is created by the mismatch between your assets and your liabilities. This mismatch is caused by both asset mix policy decisions and implementation decisions. It is calculated as the standard deviation of your Surplus Returns.

This analysis implies that 1 year in 20 you can expect to lose in excess of  $1.65 \times 15.6\% = 25.8\%$  relative to your current funded status. Of course, 1 year in 20 you can also expect to gain in excess of the same amount.

The peer median Asset-Liability mismatch risk was 16.9% and the U.S. median was 16.8%.



## In summary:

### 1. Policy Return

- Your 5-year Policy Return was 6.4%. This was above the U.S. median of 5.2% and above the peer median of 5.2%.

### 2. Implementation Value Added

- Your 5-year Implementation Value Added was -0.5%. This compares to the U.S. median of 0.8% and the peer median of 0.2%.

### 3. Implementation Risk

- Your 5-year Implementation Risk was 1.1%. This was slightly below the U.S. median of 1.3% and below the peer median of 1.5%.

### 4. Costs

- Your Total Cost of 33.7 bps was close to your Benchmark Cost of 36.5 bps. This suggests that your fund was normal cost.

You were low cost by 2.8 basis points because you paid less for external active management, oversight, custodial and other costs.

### 5. Cost Effectiveness

- For 2005 you had positive value added and normal cost on the Cost Effectiveness Chart.

### 6. Asset-Liability Mismatch Risk

- Your 5-year Asset-Liability Mismatch Risk was 15.6%. This was below the U.S. median of 16.8% and below the peer median of 16.9%.

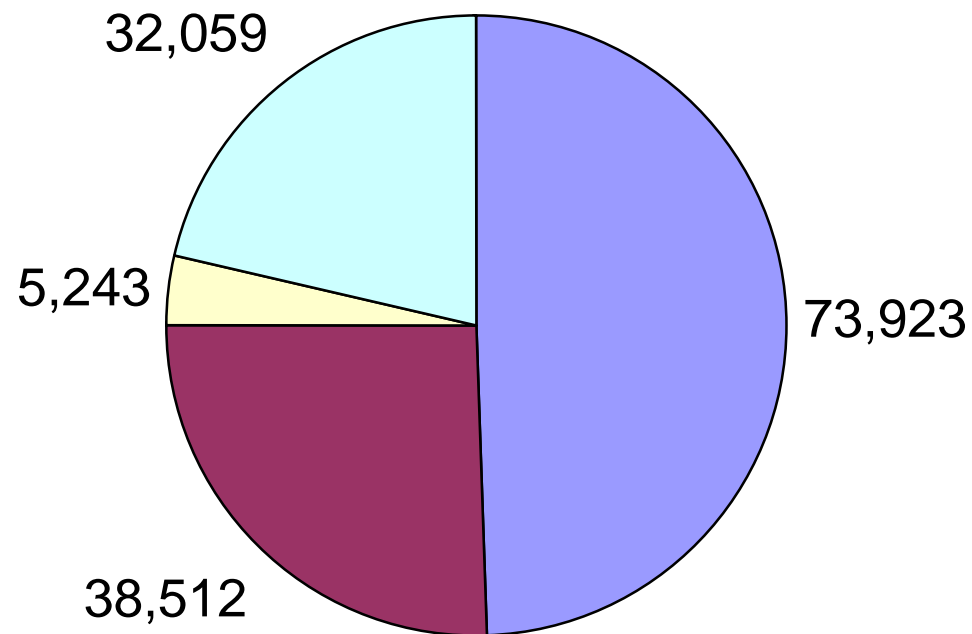


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# Statistical Reports

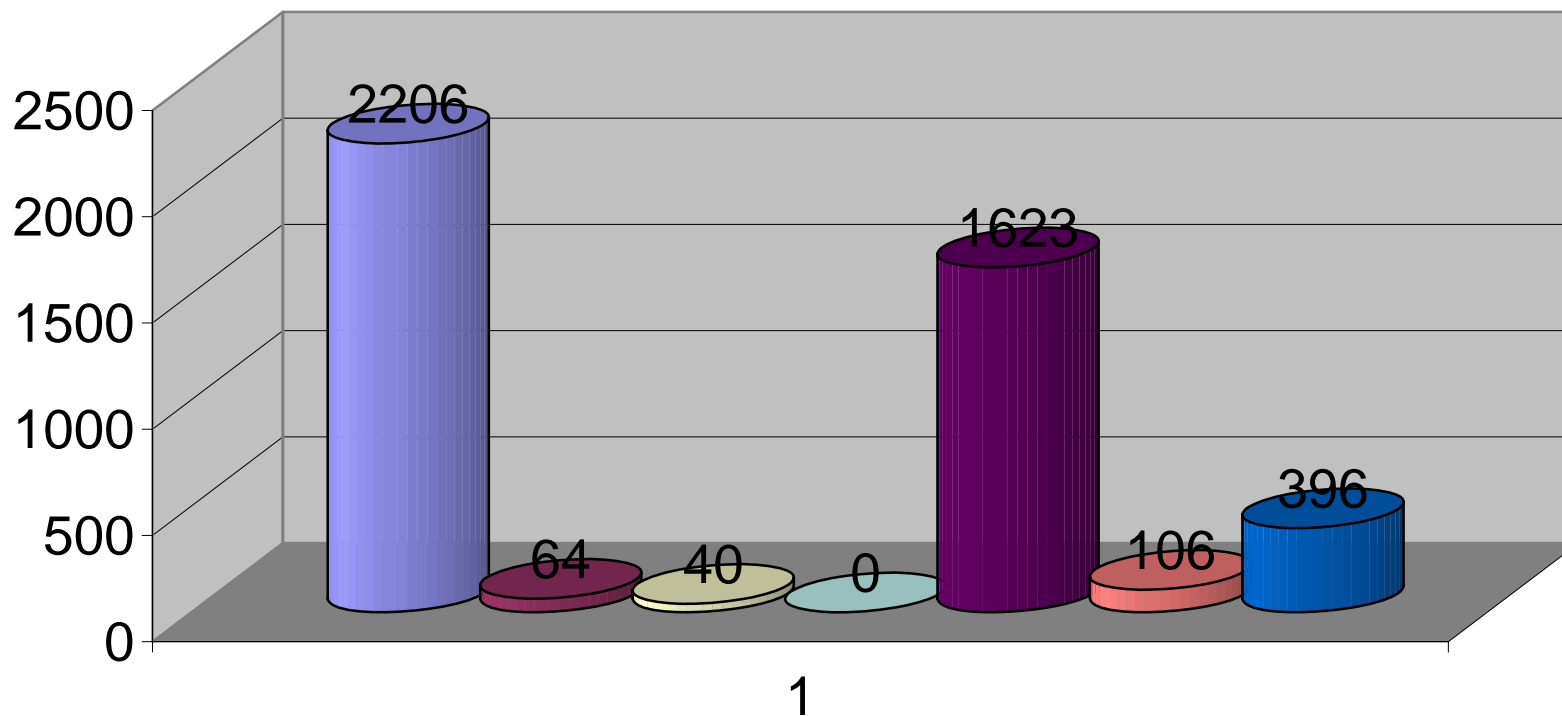
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## Fund Members

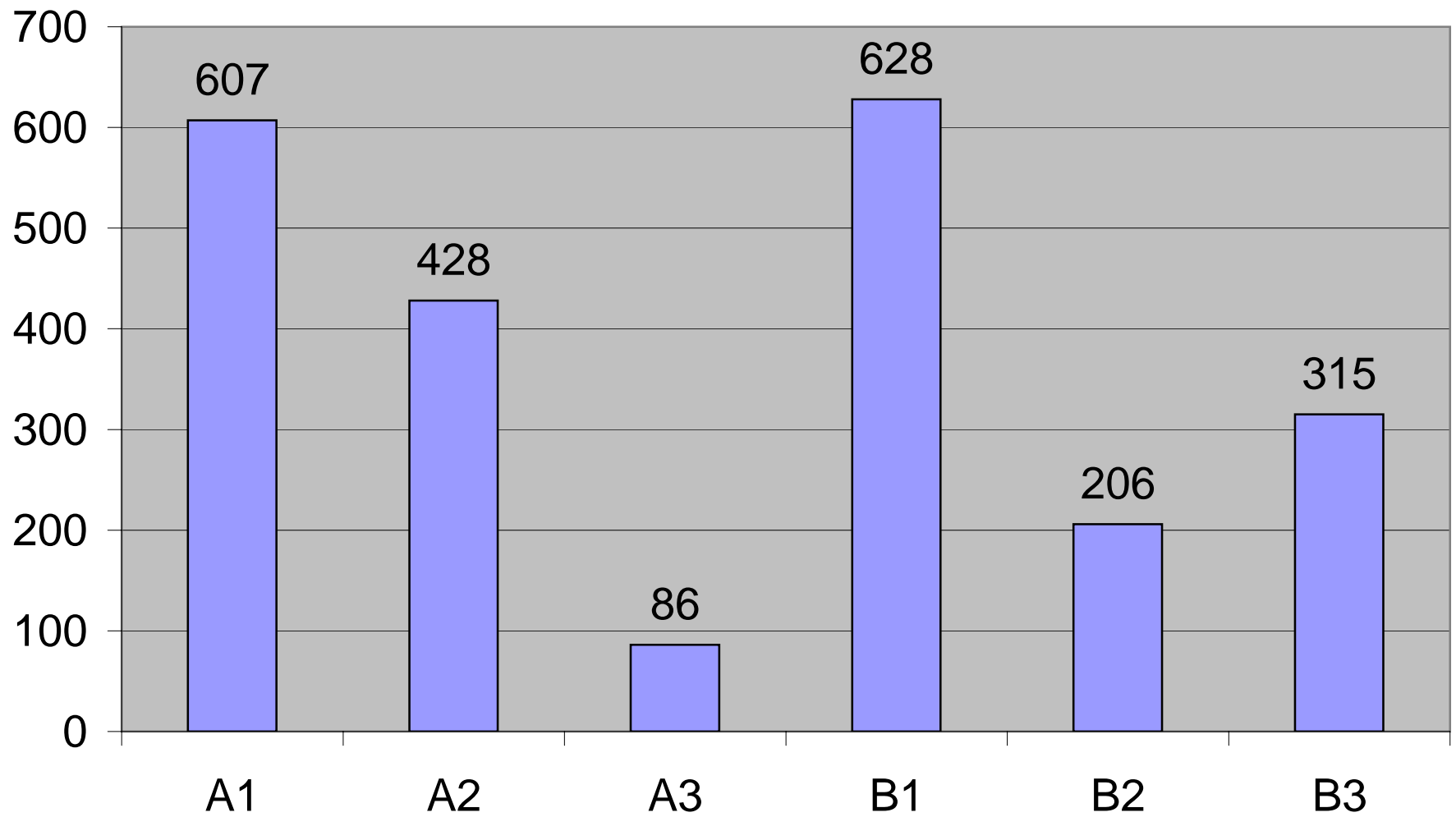


■ Active ■ Retirees ■ Inactive Vested ■ Inactive Non-Vested

## Distributions for Fiscal Year 2005-2006



## Retired Member Options



**PRE-1996 FUND**  
**RETIRED MEMBERS AND BENEFICIARIES JUNE 30, 2005**  
**TABULATED BY YEAR OF RETIREMENT**

---

Year of Retirement	Number	Monthly Pensions	
		Total	Average
Before 1970	440	\$ 171,962	\$ 391
1970	116	50,514	436
1971	164	79,330	484
1972	199	102,987	518
1973	260	143,025	550
1974	314	175,082	558
1975	293	165,158	564
1976	357	212,046	594
1977	396	239,275	604
1978	465	289,949	624
1979	536	338,248	631
1980	612	377,610	617
1981	607	377,886	623
1982	598	380,669	637
1983	666	428,461	643
1984	734	481,285	656
1985	1,045	732,902	701
1986	850	610,762	719
1987	987	754,009	764
1988	1,088	886,709	815
1989	863	729,257	845
1990	1,329	1,276,791	961
1991	1,284	1,320,083	1,028
1992	1,153	1,227,537	1,065
1993	1,203	1,390,312	1,156
1994	1,338	1,565,354	1,170
1995	1,670	2,031,891	1,217
1996	1,650	2,060,977	1,249
1997	1,433	1,766,520	1,233
1998	1,783	2,181,325	1,223
1999	1,630	2,160,392	1,325
2000	1,895	2,696,548	1,423
2001	1,886	2,872,536	1,523
2002	2,156	3,357,015	1,557
2003	1,847	2,978,344	1,613
2004	2,219	3,677,981	1,658
2005	1,355	2,330,515	1,720
<b>TOTALS</b>	<b>37,421</b>	<b>\$42,621,247</b>	<b>\$1,139</b>

**1996 FUND**  
**RETIRED MEMBERS AND BENEFICIARIES JUNE 30, 2005**  
**TABULATED BY YEAR OF RETIREMENT**

---

Year of Retirement	Number	Monthly Pensions	
		Total	Average
1974	1	\$ 341	\$ 341
1975	1	266	266
1981	3	1,717	572
1982	1	865	865
1985	1	887	887
1986	2	1,443	721
1987	6	4,474	746
1988	6	4,487	748
1989	6	4,190	698
1990	11	9,499	864
1991	14	11,171	798
1992	11	11,851	1,077
1993	11	9,980	907
1994	16	15,401	963
1995	23	25,956	1,129
1996	33	41,064	1,244
1997	31	36,236	1,169
1998	43	50,142	1,166
1999	51	65,523	1,285
2000	75	89,768	1,197
2001	100	138,756	1,388
2002	141	219,025	1,553
2003	193	314,178	1,628
2004	184	271,125	1,474
2005	127	214,784	1,691
<b>TOTALS</b>	<b>1,091</b>	<b>\$1,543,131</b>	<b>\$1,414</b>

This schedule may include individuals who retired from the Pre-1996 Fund and returned to work, and then retired again (from the 1996 Fund).

**INCOMING CALL ANALYSIS REPORT**  
**Fiscal Year Ending June 30, 2006**

Calls Received by Member Services Center	52,961
Night Calls on Voice Mail	5,729
Average Speed of Answer (in seconds)	12
Incoming Calls Reaching Busy Tone	0%
Average Length of Conversation (in seconds)	135

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# Service Benchmarks

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# Indiana Teachers Benefit Administration Benchmarking Results

(period ending June 2005)

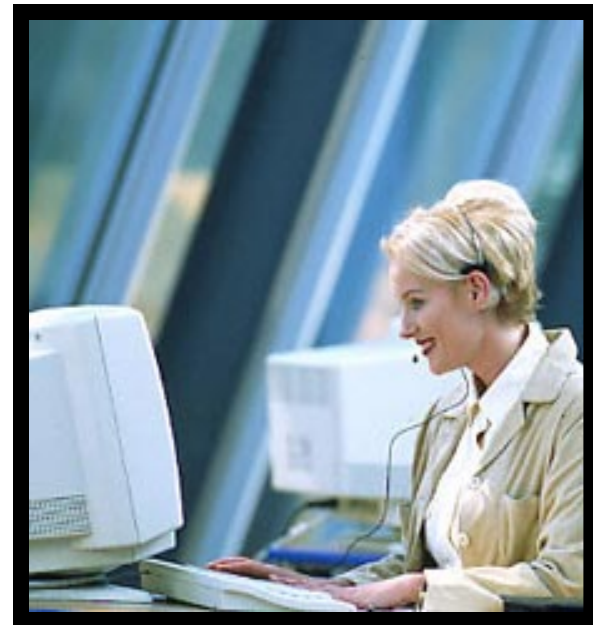
Tom Scheibelhut  
Managing Partner  
CEM Benchmarking Inc.  
416-369-9767  
tom@cembenchmarking.com  
www.cembenchmarking.com

# Every year we do a best practice review of a key service or business area

## Published

- Member Statements (2005, 2001)
- Collections and Data Maintenance Business Process Review (2004)
- Websites (2003, 2001)
- Disability Benefit Brochure Content (2003)
- Member Handbooks and Brochures (2003)
- Satisfaction Surveying Methodology (2002)
- Written Pension Estimates (2001)

This year we are reviewing call centers



# Best practice is better characterized as “Better Practice” versus “Poorer Practice”

Best Practice - Ohio Public Employees uses personalization, color, white space, quality, glossy paper and high-resolution print quality, and their logo to make a good first impression.

Poor Practice – Non personal title (Quarterly Statement of Member's Account), cheap see through paper, small font, mismatched outlining.

Ohio Public Employees Retirement System  
**Personal statement of benefits**  
as of December 31, 2003

**OPERS** Traditional Pension Plan

John C. Doe  
277 East Town Street  
Columbus OH 43215

**YOUR OPERS BENEFITS AT A GLANCE**

**CONTRIBUTIONS** (see page 4 for a detailed explanation)

Contributions made during 2003	\$3,182.29
Accumulated Contributions as of December 31, 2003	\$44,955.28
Additional Security and Applicable Interest	\$0.00
Total Account Value as of December 31, 2003	\$48,137.57

**SERVICE CREDIT** (see page 5 for a service credit breakdown)

Service Credit earned and/or purchased during 2003	0.00 years
Accumulated Service Credit as of December 31, 2003	10.258 years

**PROJECTED RETIREMENT**

Your estimated annual pension at October 01, 2018	\$16,764
---	----------

This is the earliest date you qualify for a pension based on your continuous full-time employment. (see page 6 for other projections)

**HEALTH CARE BENEFIT**

When applying for age and service retirement, OPERS members must have at least 10 years of Ohio service credit in this plan to qualify for one of the OPERS health care plans.

You qualify for health care coverage, subject to verification at retirement.

RETAIN FOR YOUR RECORDS

**QUARTERLY STATEMENT OF MEMBER'S ACCOUNT**  
(See Page 2 for an explanation of the Statement of Member's Account)

Name: *John C. Doe*  
Address: *277 East Town Street*

The member contributions and employer paying contributions on this statement are for the 09/01/04 - 09/30/04 quarter. The salary reported is the total reported by your school from 07/01/03 to 06/30/04.

		ADJUSTMENT	TO DATE
Beginning Balance Jul 01, 2004	\$20,790.64		
Interest / Earnings	544.95	\$0.00	\$4,571.47
Member Contributions 06/30/04	0.00	0.00	0.00
Voluntary Member Pre-tax Contributions 06/30/04	0.00	0.00	0.00
Voluntary Member After-tax Contributions 06/30/04	0.00	0.00	0.00
Employer PayEE Contributions 06/30/04	572.14	0.00	13,704.40
Ending Balance Sep 30, 2004			\$26,277.87

MEMBER	DATE OF BIRTH	EMPLOYER	ADDRESS	RECEIPT OF FUND	RECEIPT OF FUND	RECEIPT OF FUND	RECEIPT OF FUND
On File	On File	On File	On File	On File	On File	On File	On File

(See Below)

RECEIPT OF FUND	TYPE	DATE	AMOUNT
On File	Primary	On File	On File
On File	Spouse	On File	On File

**RECEIPT OF FUND**

TYPE	DATE	AMOUNT
On File	On File	On File
On File	On File	On File

**THIS STATEMENT CONTAINS AN UNAUDITED AND UNOFFICIAL RECORD OF YOUR SERVICE CREDIT.** Service credit eligible for computing your retirement benefit will be determined officially only at retirement, based on the service properly verified and then entered into the system. ALL DATA SHOWN IS SUBJECT TO CORRECTION OR ADJUSTMENT ON THE BEFORE YOUR RETIREMENT. Please direct any questions regarding salary data to your school with. Please direct other questions to the fund, in writing, and provide your name and title.

PLEASE KEEP YOUR ADDRESS AND BENEFICIARY INFORMATION CURRENT. DATA CHANGE FORMS ARE AVAILABLE ON OUR WEB SITE (WWW.OPERS.ORG) OR FROM OUR CUSTOMER SERVICE DEPARTMENT (TOLL FREE 800-333-3333).

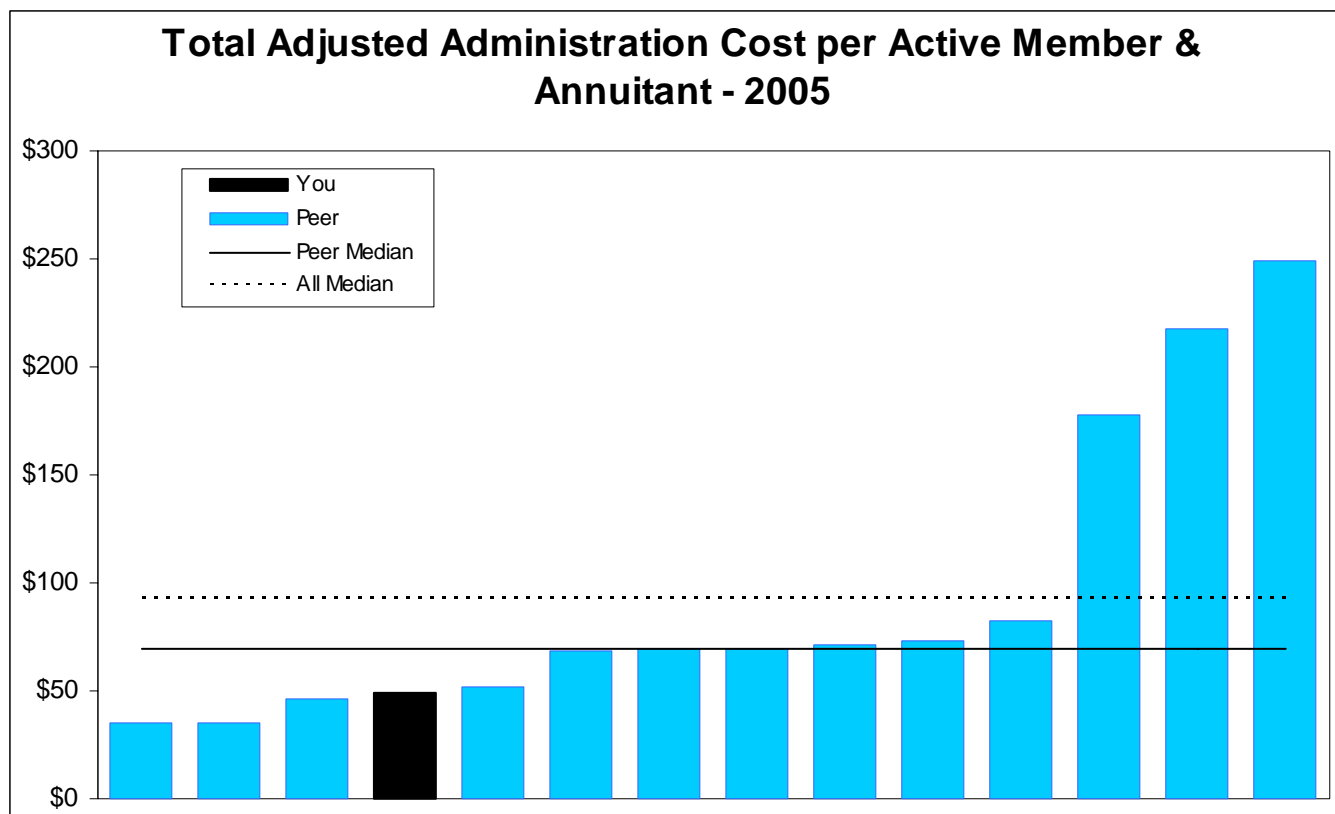
Your peer group consists of US participants closest to you in membership size.

Custom Peer Group for Indiana State TRF			
	Annuitants	Active Members	Total
Idaho PERS	28	64	93
Illinois MRF	80	169	248
Indiana State TRF	38	74	112
Iowa PERS	80	161	241
KPERS	61	154	215
LACERA	50	86	136
Michigan MERS	19	37	56
MOSERS	25	56	81
Nevada PERS	31	94	125
New Hampshire RS	19	51	70
NYC TRS	70	108	178
South Dakota RS	18	36	53
Texas MRS	26	92	118
TRS Louisiana	59	88	147
Average	43	91	134

# This analysis is based on your Total Adjusted Administration Cost of \$5.496M

Total Adjusted Administration Cost for Indiana State TRF	
Activity	\$000s
1 Paying Annuity Pensions	501
2 Annuity Pension Inceptions (non-disability)	587
3 Written Pension Estimates	21
4A 1-on-1 Member Counseling	248
4B Group Retirement Counseling	0
5 Member Contacts: Calls, Emails, Letters	352
6 Mass Communication to Members and Annuitants	428
7A-C Collections and Data Maintenance	816
7D Service to Employers	20
8 Refunds, Transfers-out, Terminating Payments	192
9 Purchases and Transfers-in	179
10 Disability	60
11A-D Financial Control and Governance	971
12A-C Plan Design and Rules Development	297
13 Major Projects (3-yr Average)	824
<b>Total Adjusted Administration Cost</b>	<b>\$5,496</b>

Your Total Adjusted Administration Cost was \$49 per Active Member & Annuitant. This was below the peer median of \$69.



# We measure and compare 4 factors that impact costs

## Factors that impact costs:

1. Transaction Volumes  
(Transaction Benchmark Cost)
2. Service Levels
3. Plan Complexity
4. Total Volume (Economies of Scale)



Total Adjusted  
Administration Cost  
per Member

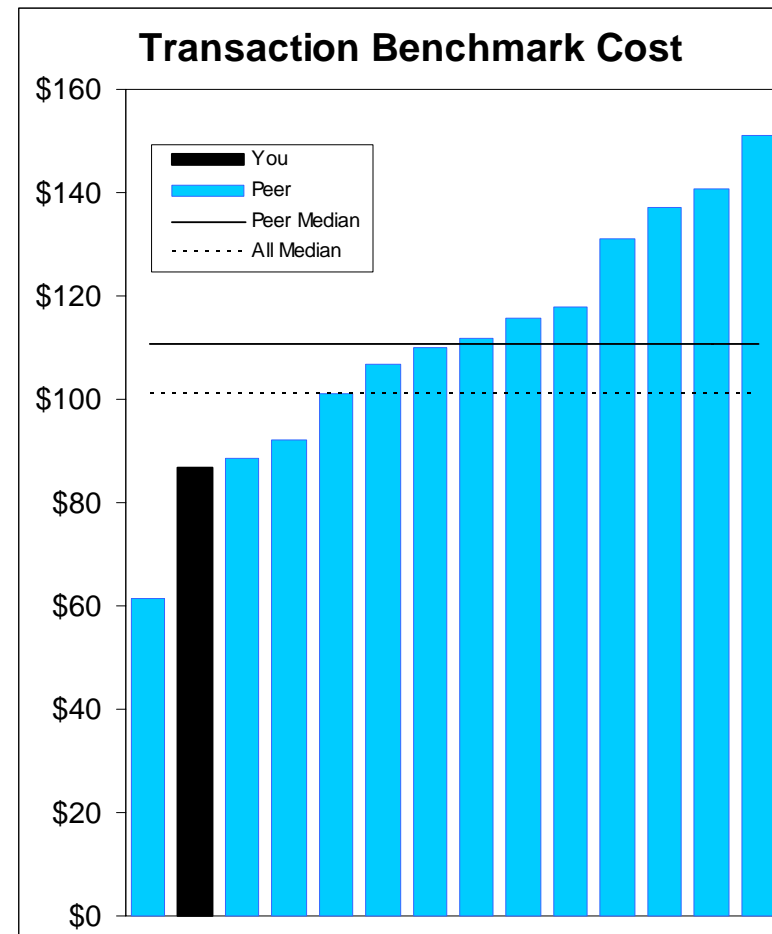
## 1. Transaction Volumes

Your Transaction Benchmark Cost was below the peer median. This implies that you are doing fewer transactions per Active Member & Annuitant.

Fewer transactions is usually desirable!

Examples where you do less:

- You had 567 member calls per 1000 active members and annuitants versus a peer average of 1,454.
- You counseled 24 members for every 1000 active members & annuitants versus a peer average of 45.
- You deal with 346 employer collection points versus a peer average of 759.
- You had 13 Purchases & Transfers-in for every 1000 active members & annuitants versus a peer average of 25





## Benchmark Cost analysis suggests that your Actual Cost of \$49 was low after adjusting for your Transaction Types and Volumes.

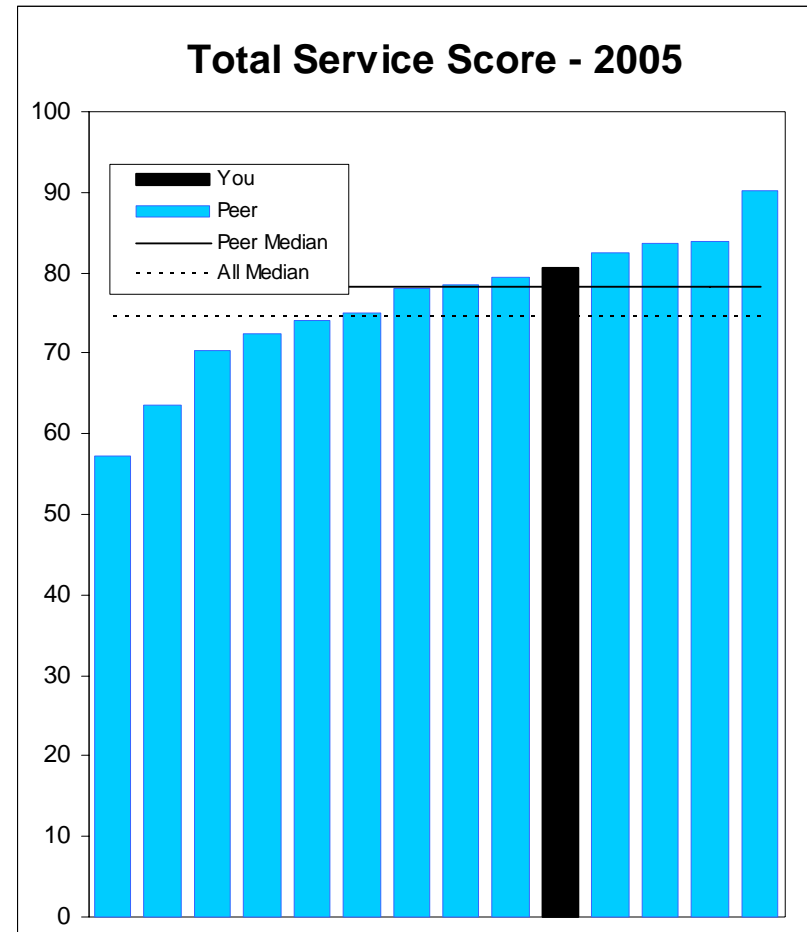
- The Benchmark Cost is our most important predictor of costs. The Benchmark Cost adjusts for differences in transaction types and volumes. But other factors, such as Service Levels, Plan Complexity and Economies of Scale also impact your cost. These other factors are compared on the following pages.

Total Benchmark Cost Analysis	
	Cost per Active Member & Annuitant
Actual Cost	\$49
Benchmark Cost	\$87
Difference	(\$38)

## 2. Service Levels

Your Total Service Score was 81. This was above the peer median of 78.

- Service is defined as: "Anything a member would like, before considering costs." High service may not always be cost effective or optimal. For example, having your Call Center open 24 hours a day is higher service, but may not be cost effective.



# Examples of key service measures included in your Service score.

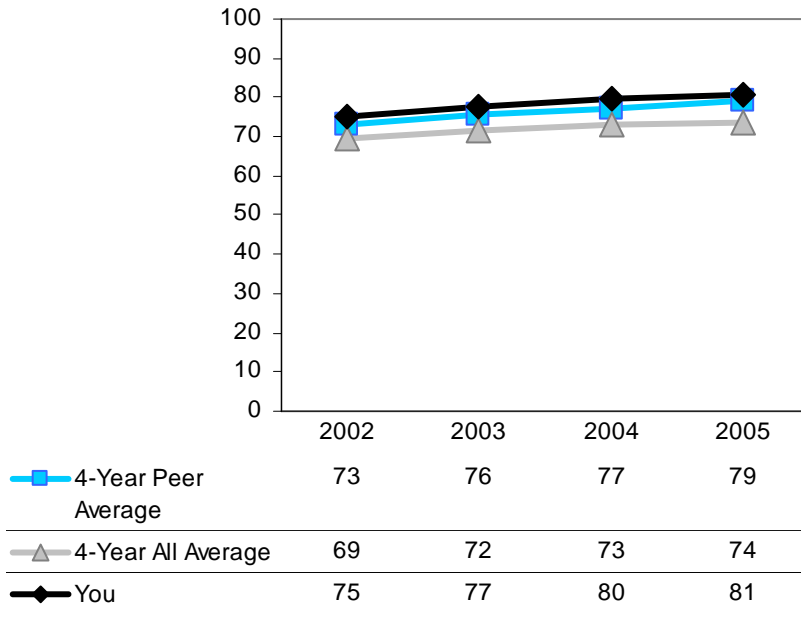
Select Key Service Metrics	You	Peer Avg
<u>Member Contacts</u>		
• % of calls that result in desired outcomes (reach knowledgeable person, needs satisfied by self-serve options) as opposed to undesired outcomes (such as busy signals, messages, hang-ups)?	93%	90%
• Average total wait time, including time waiting on hold, time navigating auto-attendant, receptionist redirection time, etc?	10 secs	55 secs
• Can you provide members an immediate estimate of their benefits at retirement over the telephone?	Yes	64%Yes
<u>Website</u>		
• Are all, some or none of your forms available online?	All	36%All
• Do members have access to their own data (i.e., service credit summary, salary,	Yes	71%Yes
• Do you have an online calculator on your website?	Yes	79%Yes
• Can membes change non-financial data such as address over the web?	Yes	50%Yes
<u>Member Statements</u>		
• On average, how current is an active member's data in the statements that the	6.0	2.8
• Do your statements for active members include:		
- Pensionable earnings?	Yes	100%Yes
- An estimate of the future pension entitlement ?	Yes	93%Yes
<u>Pension Inceptions</u>		
• What % of annuity pension inceptions are paid without an interruption of cash flow greater than 1 month between the final pay check and the first pension	100%	90%

# Your Service Scores by Activity compared to your peers as follows:

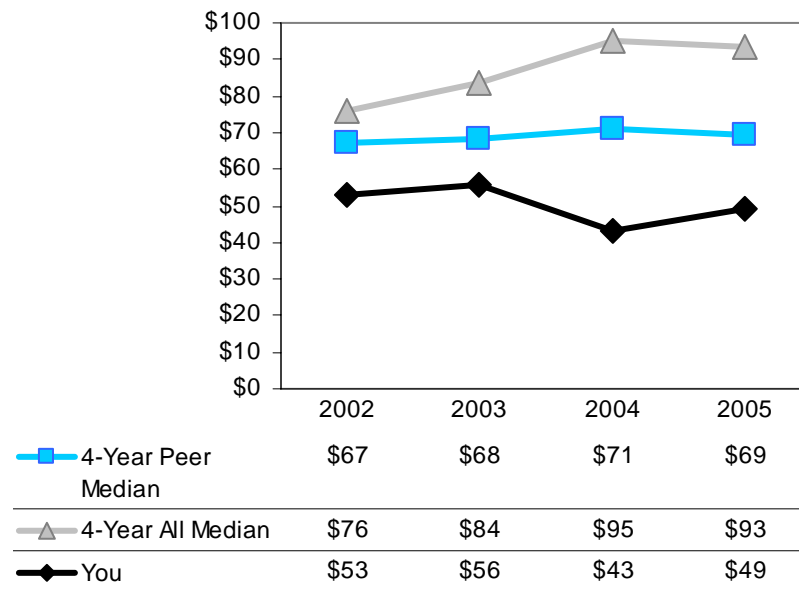
Service Scores by Activity			
Weight	Activity	Your Score	Peer Avg
18.9%	1 Paying Annuity Pensions	98	96
7.9%	2 Annuity Pension Inceptions (non-disability)	88	81
5.0%	3 Written Pension Estimates	60	67
11.3%	4A-B Counseling	72	79
21.5%	5 Member Contacts: Calls, Emails, Letters	89	69
21.8%	6 Mass Communication to Members and Annuitants	72	72
	a) Member Presentations (15%)	52	77
	b) Website (30%)	95	72
	c) Electronic Delivery (5%)	0	5
	d) Newsletters (15%)	70	80
	e) Member Statements (30%)	85	83
	f) Other Mass Communication (5%)	0	47
4.0%	7D Service to Employers	61	64
0.3%	8 Refunds, Transfers-out, Terminating Payments	75	72
3.3%	9 Purchases and Transfers-in	86	68
5.1%	10 Disability	57	66
1.0%	11A-D Financial Control and Governance	82	78
100.0%	Total Service Score (Average)	81	76

# Your Service Levels have been increasing and your costs decreasing!

**Service Score History \*\***



**Total Adjusted Administration Cost per Active Member & Annuitant**

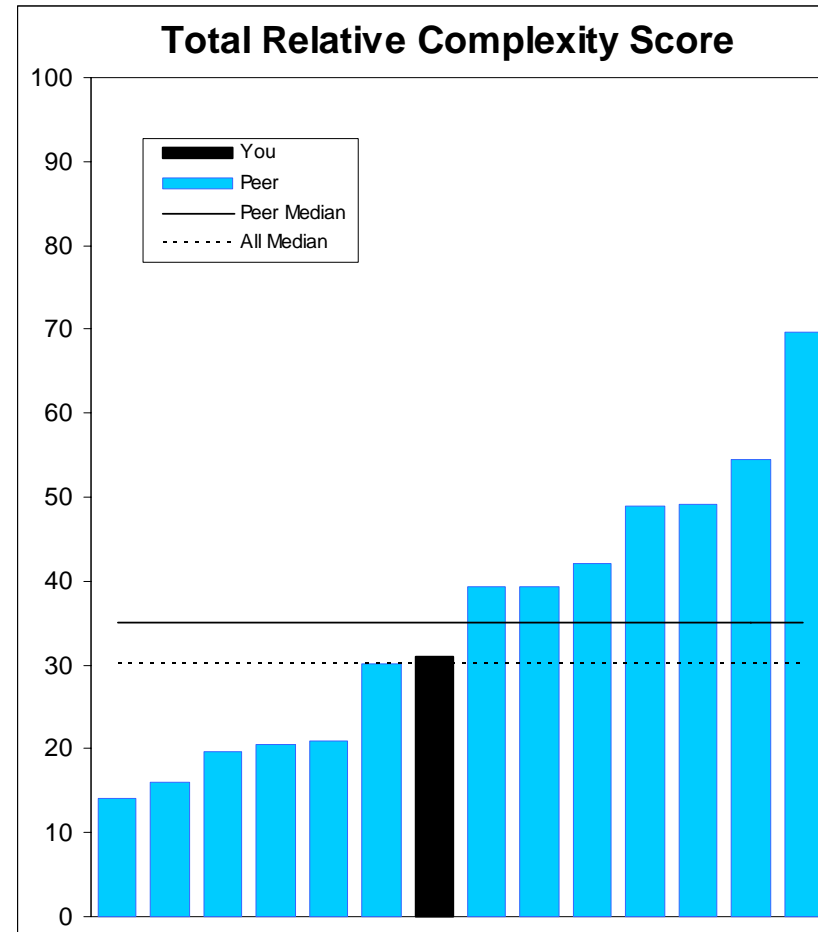


### 3. Complexity

## Your Relative Complexity was below the peer median.

Complexity is caused by two factors:

1. Multiple member groups with different rule sets.
2. Complex rules. For example, many systems need to keep track of multiple mortality tables that depend on the member's hire date.



## Your Relative Complexity by underlying cause compared to your peers as follows:

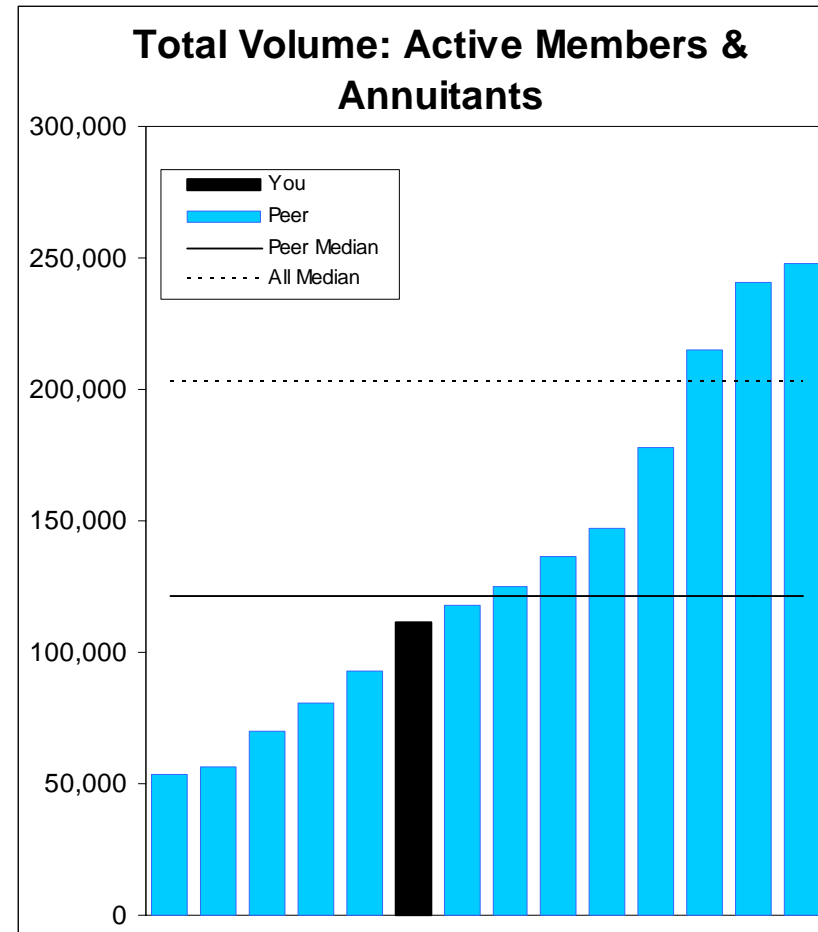
- The most complex participant is CalPERS. Their participating local employers can extensively customize their rule sets. For example, their employers can select their own benefit multipliers, final salary definition, retirement age, cost of living adjustment rules, disability benefit rules, etc. Their complexity from Customization Choices is 100 versus your score of 5.

Relative Complexity Ratings by Cause				
Complexity: 0 least - 100 most				
Weight	Underlying Cause	Your	Peer Avg	
15.0%	A. Pension Payment Options	70	51	
20.0%	B. Customization Choices	3	7	
10.0%	C. Multiple Plan Types and Overlays	54	20	
16.0%	D. Multiple Benefit Formula	5	34	
3.0%	E. External Reciprocity	65	15	
4.0%	F. COLA rules	0	28	
3.0%	G. Contribution Rates	13	38	
4.0%	H. Variable Compensation	85	68	
3.0%	I. Service Credit Rules	54	44	
3.0%	J. Divorce Rules	0	61	
5.5%	K. Purchase Rules	51	62	
4.0%	L. Refund Rules	67	54	
6.0%	M. Disability Rules	39	72	
0.5%	N. Translation	0	10	
3.0%	O. Defined Contribution Plan Rules	18	12	
100.0%	Weighted Average (before scaling)	33	35	
	Scaled Total Complexity	31	35	

#### 4. Economies of Scale

Your Total Volume was 111,500 Active Members & Annuitants. This compared to a peer median of 121,450.

- Total Volume matters most for systems with 50,000 or fewer Active Members & Annuitants. These smaller systems have a scale disadvantage.
- The Transaction Benchmark Cost adjusts for economies of scale that pertain to select transaction volumes and Activities.





## In Summary:

- Your Total Administration Cost of \$49 was below the peer median of \$69
- Your Total Actual Cost of \$49 was below your Benchmark Cost of \$87. In other words, your Total Actual Cost was lower than predicted given your Transaction Volumes.
- Your Total Service Score of 81 was above the peer median of 78.
- Your Relative Complexity of 31 was below the peer median of 35.
- Your Total Volume of 111,500 Active Members & Annuitants was below the peer median of 121,450.

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# Accomplishments & Goals

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# **2006 Indiana State Teachers' Retirement Fund**

## **Goals & Objectives**

### **Mission Statement**

The mission of the Indiana State Teachers' Retirement Fund is to prudently manage the Fund in accordance with fiduciary standards, provide quality benefits, and deliver a high level of service to its members, while demonstrating responsibility to the citizens of the state.

### ***Prudently Manage Fund***

1. Improve defined contribution functionality
  - Investigate defined contribution plan software options as well as record keeper options and devise plan to either move DC recordkeeping to a record keeper or another software system.
  - Partner with PERF to propose legislative changes and system changes that allow for more timely investment of annuity savings accounts and changes in investment choices.
  - Educate members with "prospectus"- like materials on investment options and with comparative materials and projections showing value of annuity plan.
2. Review investment strategies and practices to maximize returns
  - Review and revise investment policy, asset allocation and manager structure.
  - Conduct RFP for investment consulting services and propose a consulting services strategy and staffing plan to optimize performance.
  - Establish rolling rates of return targets for 1, 3, and 5 years to measure performance against targets.

### ***Provide Quality Benefits***

1. Get benefits to inactive or missing members
  - Establish a process and resolve all outstanding, outdated checks and establish a process to minimize ongoing outdated checks and resolve them in a timely fashion.
  - Establish a process and resolve all existing unexplained inactive accounts and establish a process to minimize ongoing inactive unexplained accounts and resolve in timely fashion.
2. Improve communication to and education of members, schools and TRF employees
  - Establish a communications/education timeline that identifies the needs, timing, and most effective communication vehicles for members and schools and develop/deliver against the plan.
  - Establish training modules for benefits division and train all benefits employees on all modules as well as establish needs-based training plans for other TRF employees on benefits.
  - Review, benchmark and improve TRF's staffing, compensation and benefits, performance evaluation and development systems
  - Update job descriptions, benchmark TRF structure and jobs, and establish appropriate job classifications, salary ranges and structure.
  - Review TRF and state performance evaluation and development programs and design/establish implementation process with ties to compensation and succession planning.
  - Update policies and procedures and create "handbook".
3. Establish quality assurance, benefits focused internal audit reviews
  - Set 2006 schedule focusing on quality assurance of benefits process.
  - Establish methodology for review, feedback, response, and action plans in audits.

# **2006 Indiana State Teachers' Retirement Fund**

## **Goals & Objectives**

4. Evaluate medical plan offerings
  - Transition Rx Plan participants to Medicare D plans and eliminate Rx plan that is no longer cost effective for members.
  - Conduct RFP for Medicare A & B supplement plan before 2007 renewal and evaluate effectiveness of plan with members.

### ***Deliver a high level of service***

1. Improve online and telephone functionality and responsiveness for members
  - Offer web-based and telephonic member account maintenance functions such as name, address and investment changes, and options for electronic only quarterly statements and newsletters.
  - Implement best practice, user friendly web design with a web user guide and follow an update schedule.
  - Implement phone vectoring service.
  - Maintain customer service call statistics of <30 seconds average wait time, <1% abandoned rate, and average call time of 2.0 minutes.
2. Improve wage and hour contribution reporting and payments
  - Upgrade our web-based electronic wage and contribution reporting vehicle and its interface with SIRIS to eliminate unnecessary edits, validations and exceptions resulting in more accurate and efficient web-based wage and contribution reporting.
  - Create and implement an adjustments portal for reporting of school wage and hour contribution adjustments and bring backlog current.
  - Establish an escalation process for late wage and contribution payors.
3. Simplify and improve retirement processing
  - Remove all non-required data and steps from application form to decrease the number of returned forms.
  - Streamline and consolidate processing steps to increase accountability.
  - Offer summer counseling sessions for 50% of non-summer availability times.
  - All member appointments are scheduled for a time within 2 weeks of initial contact.
  - Process 95% of all retirements with no more than two 85% checks.

### ***Responsibility to Indiana citizens***

1. Improve management of member records
  - Gain approval of downloaded SIRIS imaged records to microfiche, saving the cost of manual quality control process of all microfilmed documents as approved permanent records.
  - Gain approval of corresponding record retention changes.
  - Maintain pre-SIRIS retirement paper records, saving planned costs to scan/index and microfilm with manual quality control.
  - Once new download and record retention systems approved, download all remaining SIRIS records, saving planned cost to manually microfiche and check.
  - Finish scanning/indexing active member paper backlog.
  - Maintain current paperless system going forward with 24 hour scanning/indexing of all new records.
  - Standardized image indexing system designed and implemented.

## **2006 Indiana State Teachers' Retirement Fund Goals & Objectives**

2. Improve IT functionality
  - Clean up and prioritize pending SIRIS change requests and deliver all remaining pending system changes.
  - Establish going forward a system for identifying, prioritizing and delivering system enhancements and change requests.
  - Establish a resources and funding plan for the most efficient and effective delivery of our defined benefit plan IT using SIRIS technology.
  - Train all TRF employees on Microsoft Office and People Soft and fully utilize these systems.
3. Provide high quality, cost effective legal services
  - Partner with PERF for RFP for outside counsel.
  - Establish process and procedure for handling securities litigation.
  - Partner with PERF to conduct administrative code review and propose necessary changes.
4. Coordinate financial system with OMB
  - Participate in OMB People Soft financial recordkeeping and create interface from our system for all required data.
5. Improve effectiveness and efficiency of payroll and benefits systems for TRF employees
  - Move payroll to State of Indiana eliminating cost of external vendor.
  - Move administration of payroll-based benefits to State Personnel Department.